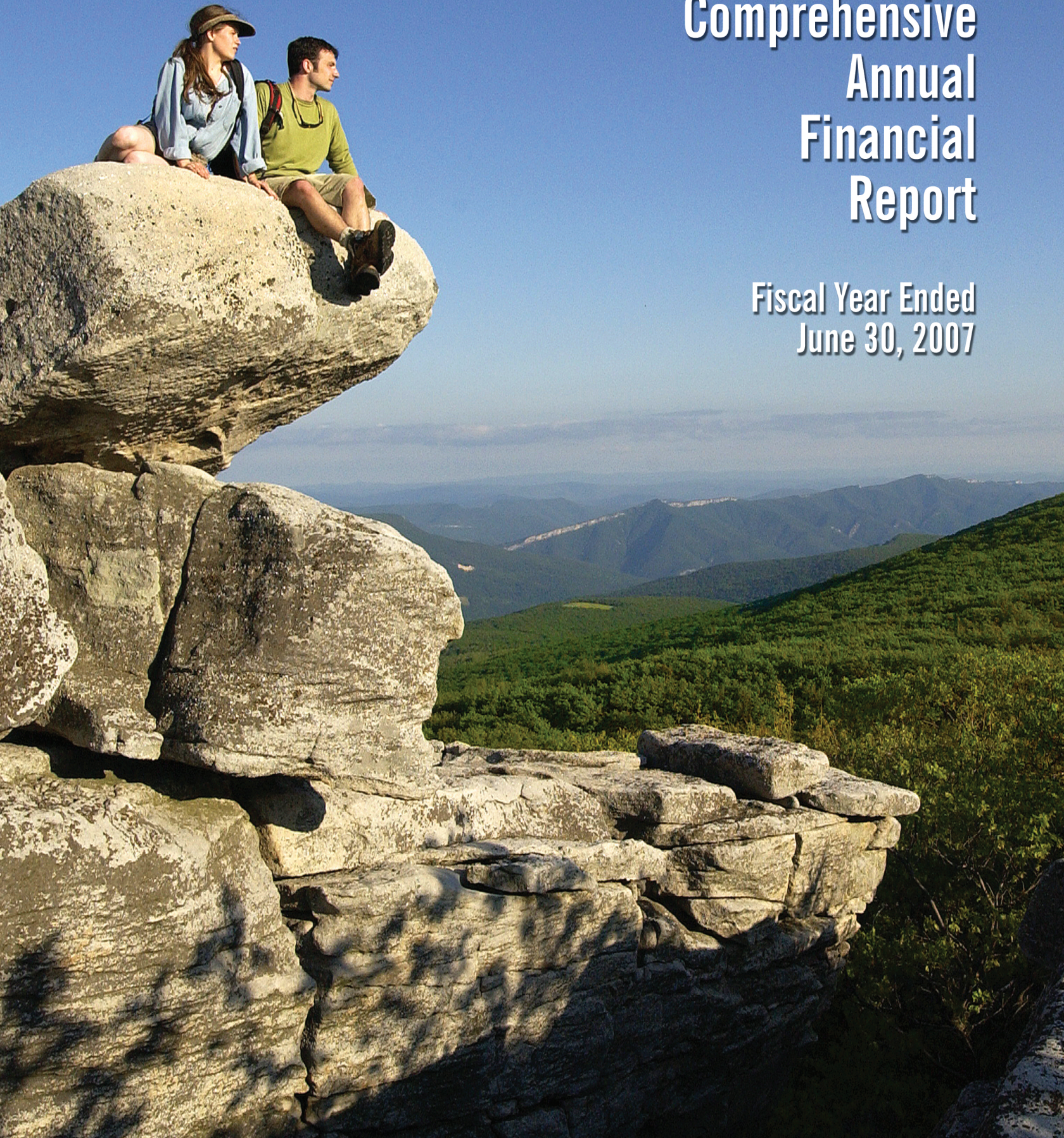


# West Virginia

## Comprehensive Annual Financial Report

Fiscal Year Ended  
June 30, 2007





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# *West Virginia*

## *Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2007*

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***Joe Manchin III***  
*Governor*

***Robert W. Ferguson, Jr.***  
*Cabinet Secretary*  
*Department of Administration*

***Ross Taylor***  
*State Comptroller*  
*Department of Administration*

*Prepared by the  
Financial Accounting  
and Reporting Section*

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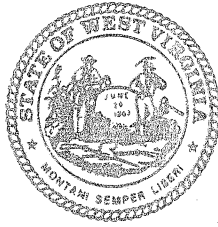
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*Governor Joe Manchin III*

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*State of West Virginia*  
*Joe Manchin III*  
*Governor*

Office of the Governor  
State Capitol  
1900 Kanawha Boulevard, East  
Charleston, WV 25305

Telephone: (304) 558-2000  
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FAX: (304) 342-7025  
[www.wv.gov.org](http://www.wv.gov.org)

To the Honorable Members of the West Virginia Legislature  
And the Citizens of West Virginia

I am pleased to provide you with the State of West Virginia Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. An independent certified public accounting firm has audited the basic financial statements contained in this report.

The CAFR demonstrates West Virginia's commitment to financial accountability and national standards. This document provides the Legislature and the citizens of West Virginia with the state's financial data. It can be accessed on the Internet at [www.wvfinance.state.wv.us](http://www.wvfinance.state.wv.us).

This report was compiled with the help of individuals throughout state government. Each state agency provided clear, concise information to ensure the highest level of financial accountability.

With warmest regards,

A handwritten signature in dark ink, appearing to read "Joe Manchin III", written over a horizontal line.

Joe Manchin III  
Governor



# *ACKNOWLEDGMENTS*

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## **Report Prepared By:**

West Virginia Department of Administration  
Finance Division  
Financial Accounting and Reporting Section  
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Jane Shinn  
Sheila Straley

## **A Special Thanks To:**

Becky Hayes, CPA

Special appreciation is given to all personnel throughout the State whose extra effort to contribute accurate, timely financial data for their agencies made this report possible. The technical support of Information Services and Communications has been invaluable. Thanks to the Division of Tourism for their pictorial and technical assistance.

We invite you to visit our web site: [www.wvfinance.state.wv.us](http://www.wvfinance.state.wv.us)



**STATE OF WEST VIRGINIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**

|  | <b>Page</b> |
|--|-------------|
| Letter of Transmittal .....                      | x           |
| GFOA Certificate of Achievement .....            | xv          |
| Organization Chart .....                         | xvi         |
| State of West Virginia Principal Officials ..... | xvii        |

**FINANCIAL SECTION**

|  |    |
|--|----|
| REPORT OF INDEPENDENT AUDITORS .....                                 | 2  |
| MANAGEMENT'S DISCUSSION AND ANALYSIS .....                           | 4  |
| <br>BASIC FINANCIAL STATEMENTS:                                      |    |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS:                                |    |
| Statement of Net Assets .....  | 22 |
| Statement of Activities .....  | 24 |
| FUND FINANCIAL STATEMENTS:   |    |
| Balance Sheet - Governmental Funds .....                             | 27 |
| Reconciliation of the Governmental Funds Balance                     |    |
| Sheet to the Statement of Net Assets .....                           | 28 |
| Statement of Revenues, Expenditures, and Changes in                  |    |
| Fund Balances - Governmental Funds .....                             | 29 |
| Reconciliation of the Statement of Revenues, Expenditures,           |    |
| and Changes in Fund Balances - Governmental Funds                    |    |
| to the Statement of Activities .....                                 | 30 |
| Statement of Net Assets - Proprietary Funds .....                    | 32 |
| Statement of Revenues, Expenses, and Changes in                      |    |
| Fund Net Assets - Proprietary Funds .....                            | 34 |
| Statement of Cash Flows - Proprietary Funds .....                    | 36 |
| Statement of Fiduciary Net Assets - Fiduciary Funds .....            | 41 |
| Statement of Changes in Fiduciary Net Assets - Fiduciary Funds ..... | 42 |



**FINANCIAL SECTION (Continued)**

**Page**

|   |    |
|---|----|
| Combining Statement of Net Assets -<br>Discretely Presented Component Units ..... | 46 |
| Combining Statement of Activities -<br>Discretely Presented Component Units ..... | 48 |

**NOTES TO THE FINANCIAL STATEMENTS:**

|  |     |
|--|-----|
| Note 1 - Summary of Significant Accounting Policies .....                  | 50  |
| Note 2 - Restatements, Restricted, Reserved, and Designated Balances ..... | 73  |
| Note 3 - Fund Deficits .....   | 75  |
| Note 4 - Deposits and Investments .....                                    | 77  |
| Note 5 - Receivables .....   | 106 |
| Note 6 - Interfund Balances .....  | 110 |
| Note 7 - Interfund Transfers .....   | 112 |
| Note 8 - Restricted Assets .....   | 114 |
| Note 9 - Capital Assets .....  | 116 |
| Note 10 - Long-Term Obligations .....                                      | 119 |
| Note 11 - Leases .....   | 131 |
| Note 12 - Retirement Systems .....   | 133 |
| Note 13 - Other Postemployment Benefits .....                              | 141 |
| Note 14 - Risk Management .....  | 144 |
| Note 15 - Commitments and Contingencies .....                              | 150 |
| Note 16 - Subsequent Events .....  | 158 |

**REQUIRED SUPPLEMENTARY INFORMATION:**

|   |     |
|---|-----|
| Budgetary Comparison Schedule .....   | 162 |
| Notes to Required Supplementary Information - Budgetary Reporting .....                             | 165 |
| Budgetary Comparison Schedule, Budget-to-GAAP Reconciliation .....                                  | 169 |
| Pension Plans - Schedule of Funding Progress .....  | 170 |
| Notes to Required Supplementary Information -<br>Pension Plans - Schedule of Funding Progress ..... | 171 |

**COMBINING FINANCIAL STATEMENTS AND SCHEDULES:**

|  |     |
|--|-----|
| Combining Balance Sheet - Nonmajor Governmental Funds .....  | 176 |
| Combining Statement of Revenues, Expenditures, and<br>Changes in Fund Balances - Nonmajor Governmental Funds ..... | 178 |



**FINANCIAL SECTION (Continued)****Page**

|   |     |
|---|-----|
| Combining Balance Sheet - Nonmajor Special Revenue Funds .....  | 182 |
| Combining Statement of Revenues, Expenditures, and<br>Changes in Fund Balances - Nonmajor Special Revenue Funds ..... | 184 |
| Combining Balance Sheet - Nonmajor Debt Service Funds .....   | 187 |
| Combining Statement of Revenues, Expenditures, and<br>Changes in Fund Balances - Nonmajor Debt Service Funds .....    | 188 |
| Combining Statement of Fund Net Assets - Internal Service Funds .....   | 190 |
| Combining Statement of Revenues, Expenses, and<br>Changes in Fund Net Assets - Internal Service Funds .....           | 191 |
| Combining Statement of Cash Flows - Internal Service Funds .....  | 192 |
| Combining Statement of Net Assets - Nonmajor Proprietary Funds .....  | 195 |
| Combining Statement of Revenues, Expenses, and Changes in<br>Fund Net Assets - Nonmajor Proprietary Funds .....       | 196 |
| Combining Statement of Cash Flows - Nonmajor Proprietary Funds .....  | 197 |
| Combining Statement of Net Assets -<br>Pension Trust Funds .....  | 200 |
| Combining Statement of Changes in Net Assets -<br>Pension Trust Funds .....   | 202 |
| Combining Statement of Fiduciary Net Assets -<br>Investment Trust Funds .....   | 205 |
| Combining Statement of Changes in Fiduciary Net Assets -<br>Investment Trust Funds .....                              | 205 |
| Combining Statement of Fiduciary Net Assets -<br>Agency Funds .....   | 207 |
| Combining Statement of Changes in Assets and Liabilities -<br>Agency Funds .....                                      | 208 |
| Combining Statement of Net Assets -<br>Nonmajor Discretely Presented Component Units .....                            | 212 |
| Combining Statement of Activities -<br>Nonmajor Discretely Presented Component Units .....                            | 214 |

**STATISTICAL SECTION**

|             |     |
|-------------|-----|
| Index ..... | 218 |
|-------------|-----|







# Introductory Section

Transmittal Letter

Certificate of  
Achievement for  
Excellence in  
Financial Reporting

Organization Chart

Principal Officials





STATE OF WEST VIRGINIA  
DEPARTMENT OF ADMINISTRATION  
DIVISION OF FINANCE

JOE MANCHIN III  
GOVERNOR

ROBERT W. FERGUSON, JR.  
CABINET SECRETARY

March 24, 2008

The Honorable Joe Manchin III, Governor  
The Honorable Members of the West Virginia Legislature  
The Citizens of West Virginia

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the State of West Virginia for the fiscal year ended June 30, 2007. This report has been prepared by the Financial Accounting and Reporting Section within the Division of Finance of the Department of Administration.

The CAFR has been prepared in conformity with the reporting model outlined by the Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35, and other related statements. This reporting model's objective is to provide a clear picture of the government as a single, unified entity as well as to provide traditional fund-based financial statements. The State of West Virginia's financial statements for the fiscal year ended June 30, 2007, are fairly presented in conformity with generally accepted accounting principles in the United States (GAAP).

The independent audit of the financial statements of the State of West Virginia is part of a broader, federally mandated "Single Audit" designed to meet the requirements of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with requirements applicable to major programs. These reports are available in the State of West Virginia's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

The CAFR consists of management's representations concerning the financial information of the State of West Virginia. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide

a reasonable basis for making these representations, management of the State has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State's financial statements in conformity with U.S. generally accepted accounting principles. Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The State of West Virginia's financial statements have been audited by Ernst & Young, LLP. The independent auditors concluded, based upon their audit and the reports of other auditors, that there was a reasonable basis for rendering an unqualified opinion.

## **Profile of the Government**

The State of West Virginia provides a full range of services including: education, social and health services, transportation, public safety, conservation of natural resources, and economic development. In addition to general government activities, this report includes various discretely presented component units which are financially accountable to the State, or for which the nature and significance of their relationship with the State are such that their exclusion would cause this report to be misleading or incomplete. The criteria used to determine financial accountability of a particular entity are the appointment by a state official of a voting majority of the entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to or impose specific financial burdens on the State. See Note 1 (Summary of Significant Accounting Policies) for a comprehensive discussion of the criteria used in determining the State's financial reporting entity.

Budgetary control is maintained through legislative appropriations and the Executive Branch quarterly allotment process. Agencies submit budgetary requests to the State Budget Office. The State Budget Office compiles the Executive Budget on behalf of the Governor, who submits it to the Legislature. After the approval of the budget, the State Budget Office maintains control over the spending patterns of the State at the activity level and by use of the quarterly allotments. The State Auditor exercises control over spending at the annual appropriation level. All appropriations, except funds which are reappropriated, expire 31 days after fiscal year-end.



## **Economic Conditions and Outlook**

West Virginia is maintaining its positive direction toward a stronger and more vibrant state in which to live and work as a result of the leadership of Governor Joe Manchin III and the West Virginia State Legislature.

In 2007, *Expansion Management* magazine and the National Policy Research Council conducted a study which reviewed 19 million businesses across the country. West Virginia was ranked 8th in the nation for business recruitment and attraction.

The State's average unemployment rate last year was 4.6 percent, the lowest unemployment average in the State's history. The number of West Virginians working last year averaged 778,269, the highest number during a year ever recorded. Meanwhile, the size of State government has decreased for the second consecutive year for the first time in more than 15 years.

### *Long-term Financial Planning and Relevant Financial Policies*

Our dedicated State employees have worked tirelessly for West Virginia. In addition, during the last three years, our leaders have addressed our State's debts directly by putting an additional \$1.7 billion toward our retirement systems. With this contribution, our State employees and our teachers can be confident that the money they have earned will be there when they need it.

State leadership is investing in our citizens as well by committing more than \$300 million since 2004 to install and upgrade water and sewage systems throughout West Virginia, with at least \$77 million worth of additional projects set to begin in 2008. This is bringing clean drinking water and safe sewage systems to many West Virginia communities.

These proactive initiatives are being done while continuing to reduce costs to citizens and businesses alike. West Virginia consumers have benefited from more than \$80 million worth of reductions in their insurance costs, with many more insurance companies doing business in West Virginia today than in recent years.

The State's workers' compensation system has been completely transformed and privatized. In addition to our injured workers receiving better and quicker service, state businesses workers' compensation costs have decreased by an average of 27 percent, resulting in savings of roughly \$150 million. State government plans have saved West Virginians approximately \$100 million annually by increasing the low-income family tax credit; doubling the amount of the senior citizens refundable homestead exemption tax credit;

removing the “Welcome to West Virginia” motor vehicle privilege tax; and cutting the food tax in half. Additionally, another \$100 million of tax burden has been removed from state businesses during the past three years by, among other things, lowering corporate net income and business franchise taxes, and more reductions are proposed for the coming years.

Combining the State’s tax cuts with the workers’ compensation decreases and insurance reforms, at least \$430 million has been returned to the citizens and businesses of West Virginia.

### *Major Initiatives*

It is estimated that 80 percent of West Virginia households now have access to broadband internet, up from 58 percent in 2004. Working closely with the private sector, the State’s goal is to reach 100 percent by 2010 which will allow our citizens and businesses to better compete in today’s global economy.

West Virginia continues to lead the way in underground coal mine safety. The State has instituted a “rapid response” accident reporting system, hired additional mine inspectors, and better equipped and trained mine rescue teams. It is now easier for regulators to close an entire mine if a pattern of serious violations exist. In addition, all underground coal operations in West Virginia are in full compliance with the State’s new emergency air pack requirements a full six months earlier than originally scheduled. This amounts to more than 40,000 new self-contained, self-rescuers deployed in West Virginia mines during the past year.

West Virginia also received its first underground emergency shelter in 2007 with a total of 308 shelters scheduled to be delivered over the next several months to mining companies throughout the State. The deployment of wireless communication and tracking devices in West Virginia’s mines, which has been a major undertaking, is now well under way. Coal company plans for these devices have been received and approved and the deployment of these systems into State mines has begun and will continue throughout 2008, meaning that all of West Virginia’s underground coal mines should have these systems in place at least one year earlier than required by the federal government.

State leadership is taking bold steps to ensure a quality of life for its citizens, both present and future, that leads to retaining good jobs and attracting new business opportunities. Working together, West Virginia has accomplished a great deal, but there is still much more left to do, and so we look forward with confidence to meeting the remaining challenges ahead.

## **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of West Virginia for its CAFR for the fiscal years ended June 30, 1995 through 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to the GFOA. Other State entities that have been awarded the Certificate of Achievement include the Board of Risk and Insurance Management, the Public Employees' Insurance Agency, the Department of Transportation, the Housing Development Fund, the Parkways, Economic Development and Tourism Authority, the West Virginia Lottery, and the West Virginia Prepaid College Plan.

## **Acknowledgments**

The annual budget document, prepared by the State Budget Office, provides additional information related to budget priorities and goals, including acknowledgment of significant accomplishments of various agency programs. The budget document has received the GFOA's Award for Distinguished Budget Presentation Program for the fiscal years 1997 through 2008 budgets.

The CAFR is an example of the Governor's unwavering belief in, and commitment to, the State's financial accountability. Acknowledgment is given to the Legislature and its leadership for their commitment to sound budgeting and to meeting the financial obligations of the State. This report would not be possible without the support of all West Virginia state agencies. The State's continued success directly depends upon their cooperation and support.

Sincerely,

A handwritten signature in blue ink that reads "Robert W. Ferguson Jr." with a stylized flourish at the end.

Robert W. Ferguson, Jr.  
Cabinet Secretary



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of West Virginia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Charles S. Cox*

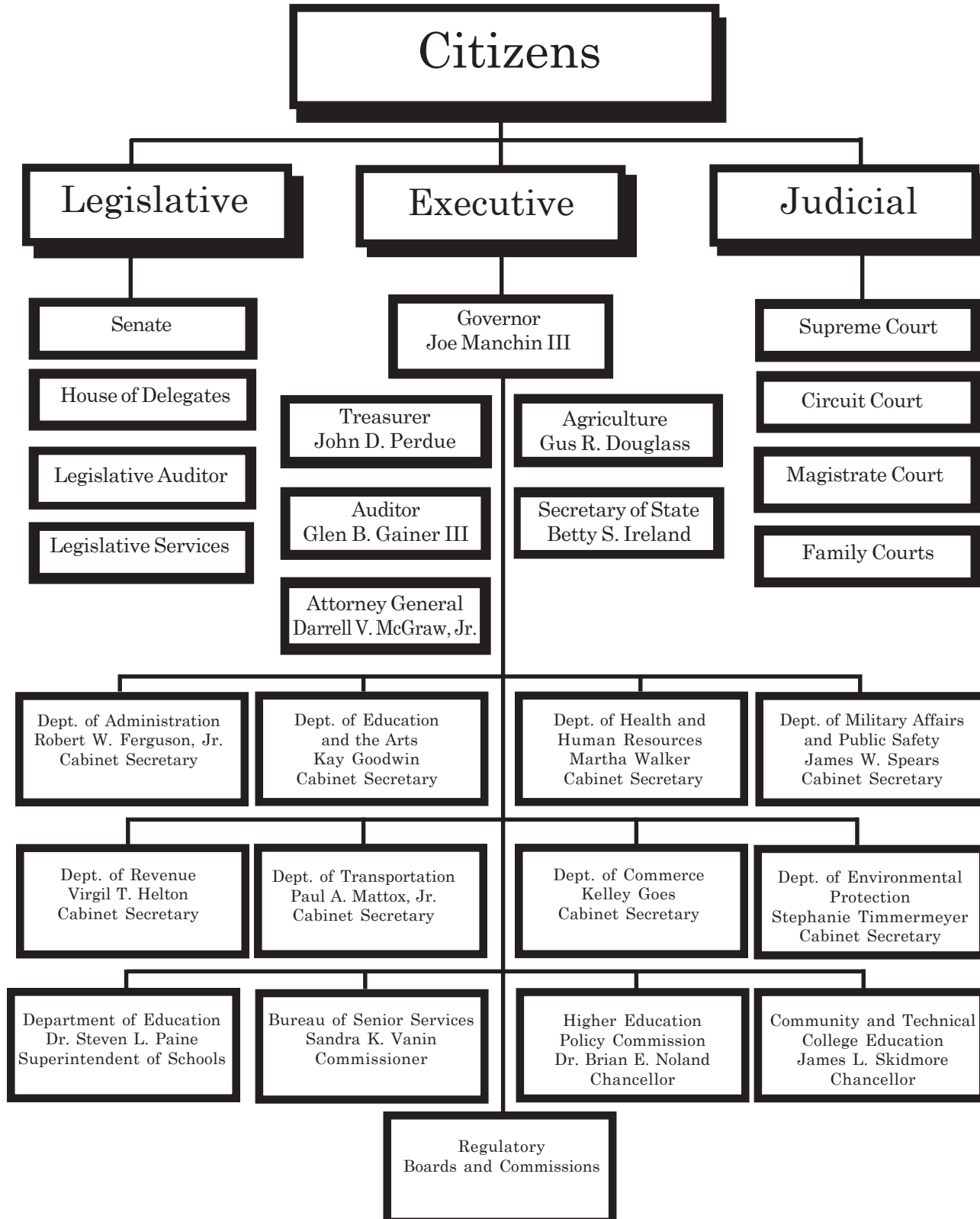
President

*Jeffrey R. Enen*

Executive Director

# West Virginia

Organization Chart  
As of December 31, 2007



# State of WEST VIRGINIA

## Principal Officials

### Executive Branch

Governor  
Joe Manchin III

Agriculture Commissioner  
Gus Douglass

Attorney General  
Darrell V. McGraw, Jr.

State Auditor  
Glen B. Gainer III

Secretary of State  
Betty Ireland

State Treasurer  
John Perdue

### Legislative Branch

President of the Senate  
Earl Ray Tomblin

Speaker of the House  
Richard Thompson

Chairman  
Senate Finance  
Walt Helmick

Chairman  
House Finance  
Harry Keith White

### Judicial Branch

Supreme Court  
Chief Justice  
Robin Jean Davis

Supreme Court Justice  
Larry V. Starcher

Supreme Court Justice  
Elliott E. Maynard

Supreme Court Justice  
Joseph P. Albright

Supreme Court Justice  
Brent D. Benjamin







A scenic photograph of a river flowing through a rocky landscape. The foreground is filled with large, light-brown, rounded boulders. The river flows through the middle ground, surrounded by lush green trees and vegetation. The sky is a vibrant blue with scattered white clouds. The text is overlaid on the right side of the image.

# Financial Section

Report of  
Independent  
Auditors

Management's  
Discussion  
and Analysis



## Report of Independent Auditors

The Honorable Joe Manchin III, Governor  
of the State of West Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia (The State) as of and for the year ended June 30, 2007 which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities within the governmental activities, the business-type activities, the aggregate discretely presented component units, certain major funds, and the aggregate remaining fund information, which represent 65 percent of total assets, 82 percent of net assets, and 15 percent of total revenues for the governmental activities; 79 percent of total assets, 91 percent of net assets, and 81 percent of total revenues for the business-type activities; 100 percent of total assets, 100 percent of net assets, and 100 percent of total revenues for the aggregate discretely presented component units; 100 percent of total assets, 100 percent of total net assets, and 100 percent of total revenues of the following major funds—Transportation, West Virginia Infrastructure and Jobs Development Council, West Virginia Lottery, Water Pollution, Workers' Compensation, and Unemployment Compensation; and 95 percent of total assets, 96 percent of net assets/fund balance, and 95 percent of the total revenues/additions for the aggregate remaining fund information, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain entities within the governmental activities, business-type activities, aggregate discretely presented component units, certain major funds, and certain entities within the aggregate remaining fund information, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the West Virginia Investment Management Board were audited by other auditors in accordance with auditing standards generally accepted in the United States but were not audited in accordance with *Government Auditing Standards*. We were not engaged to perform an audit of the State's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

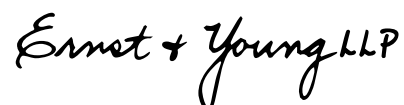
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of West Virginia as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1, 10, and 13 to the basic financial statements, in 2007, the State adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 43, *Financial reporting for Postretirement Benefit Plans Other than Pension Plans*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 20, the budgetary comparison information on pages 162 through 169, and pension plans schedule of funding progress on pages 170 through 171 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying introductory section, combining and individual nonmajor fund financial statements and schedules on pages 174 through 215, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



March 21, 2008



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of West Virginia's Comprehensive Annual Financial Report presents management's discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and the State's financial statements, which follow this section.

West Virginia implemented three new Governmental Accounting Standards Board (GASB) standards in 2007: Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," and Statement No. 50, "Pension Disclosures," an amendment of GASB Statements No. 25 and No. 27.

In conjunction with the implementation of GASB Statement No. 43, the State created the Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust, to account and report for the other postemployment benefits (OPEBs) provided under a multi-employer, cost-sharing plan. The Statement requires an actuarial valuation to estimate the actuarial accrued liability, which at June 30, 2007, was estimated to be \$3.08 billion. The RHBT is reported as a fiduciary fund in the accompanying basic financial statements. The RHBT is discussed more fully in Note 13, which also includes information on how to obtain the separately issued financial statements of RHBT.

The State early adopted GASB Statement No. 48 in conjunction with the creation of the Tobacco Settlement Finance Authority (TSFA), which was established to sell bonds that are being funded by projected future cash flows from the Master Settlement Agreement (MSA) between the tobacco manufacturers and the states. The TSFA acquired the State's rights to future tobacco settlement revenues under the MSA and issued \$911 million in bonds during the year, which are more fully described in the long-term debt section of this MD&A and in Note 10. Proceeds from the bonds of \$807.5 million were applied against the Teachers' Retirement System's unfunded obligation.

GASB Statement No. 50 required enhanced note disclosures for the pension plans, which are included in Note 12.

## FINANCIAL HIGHLIGHTS

### **Government-wide:**

The assets of the primary government exceeded its liabilities at the close of the fiscal year by \$7.97 billion (reported as "net assets"). Governmental activities reported \$8.6 billion in net assets (a \$1 billion increase, up 14.1% from last year), while the business-type activities

reported a deficit of \$674 million, a \$397 million decrease in the deficit. Additional funding of the Teachers Retirement System increased the Net Pension Asset from \$4.9 million to \$966 million. The State's net assets improvements are primarily due to a better economy, more revenue from certain taxes, interest earnings, and reduced spending.

**Fund Level:**

At year-end, the governmental funds reported a combined ending fund balance of \$3.48 billion, an increase of \$730 million, or 26.5%, in comparison with the prior year. The unreserved fund balance for the general fund was \$698 million, or 9%, of total general fund expenditures.

General Revenue surpluses allowed \$53 million to be transferred to the Revenue Shortfall Reserve Fund (Rainy Day Fund).

**Long-Term Obligations:**

There was a net increase in the State's long-term obligations of \$670 million. The increase includes new bonds, capital leases, and notes of \$1.36 billion, offset by principal payments of bonds, capital leases, and notes payable of \$383 million. The new TSFA issued \$911 million in revenue bonds payable from the State's Tobacco Master Settlement Agreement revenue. Also included in these amounts was the refinancing of West Virginia Infrastructure and Jobs Development Council general obligation bonds of \$94 million and \$197.2 million of School Building Authority revenue bonds. The Department of Transportation also issued \$109 million in revenue bonds payable from federal aid revenue. See Note 10 for more information about the bonds issued and refunded.

Significant changes in other long-term obligations included a decrease in the Net Pension Obligation of \$195 million due to one-time contributions made to the Teachers' Retirement System. The Insurance and Compensation Benefits went down \$330 million partially due to the privatization of the workers' compensation fund and the dedication of new sources of revenue to pay off the liability for claims incurred on or before June 30, 2005. See Note 14 for a more detailed explanation about the privatization and funding plan.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the State of West Virginia's basic financial statements. The basic financial statements include: the government-wide financial statements, fund financial statements, and notes to the financial statements.

The basic financial statements include two kinds of statements that present different views of the State. The statement of net assets and the related statement of activities are *government-wide financial statements* that provide both long-term and short-term

information about the State's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of the State's government, reporting the State's operations in more detail than the government-wide statements. The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that presents budgetary comparisons and pension plans schedule of funding progress as required by the Governmental Accounting Standards Board. In addition to these required elements, we have included a *combining financial statements and schedules* section that provides details about our nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units, each of which are added together and presented in single columns in the basic financial statements.

### **Government-wide Statements (Reporting the State as a Whole)**

The statement of net assets and the statement of activities together comprise the government-wide statements, which report information about the State as a whole using the full accrual basis of accounting similar to those used by private-sector companies. This means all revenues and expenses are recognized regardless of whether cash has been received or paid, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. In evaluating the State's overall condition, additional nonfinancial factors should be considered, such as the State's economic outlook, changes in its demographics, and the condition of its capital assets, including infrastructure.

The activities on the government-wide financial statements are divided into three categories:

- *Governmental activities* – Most of the State's basic services are included under these activities, such as education, health and human resources, military affairs and public safety, judicial, and administration. Personal income taxes and consumer sales taxes finance most of these activities.
- *Business-type activities* – The State charges fees to customers to help it cover all or a significant portion of the costs of certain services it provides. Public Employees' Insurance Agency and the Board of Risk and Insurance Management, among other funds, are examples of these activities.

- *Component units* – The State includes several other entities in its report, for which it is financially accountable – such as West Virginia Housing Development, Parkways, Economic Development and Tourism Authority, and Higher Education. Separately issued financial statements are also available for these component units.

## Fund Financial Statements

The fund financial statements provide more detailed information about the State's *major funds*, not the State as a whole. Funds are accounting devices that the State uses to track specific sources of funding and spending for particular purposes. Certain funds are required by the West Virginia Constitution and others are required by bond covenants. The State Legislature establishes other funds to control and manage money for particular purposes or to show that certain taxes and grants are used properly.

The State has three kinds of funds:

- *Governmental funds* – Most of the State's basic services are included in governmental funds, which focus on (1) *cash and other financial assets* that may readily be converted to cash flow in and out and (2) the balances left at year-end available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view to help determine whether there are more or fewer financial resources that may be spent in the near future to finance the State's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the pages immediately following each statement, explaining the relationship (or differences) between them and the government-wide statements.
- *Proprietary funds* – Proprietary funds include enterprise funds and internal service funds. They account for state activities that are operated in a manner similar to private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the accrual basis of accounting and provide both long- and short-term financial information. Services for which the State charges external customers a fee are generally reported in enterprise funds. Activities where customers are mostly other State agencies are accounted for in internal service funds. The internal service funds are consolidated with the governmental activities on the government-wide statements because they predominantly benefit the governmental rather than business-type activities.



- *Fiduciary funds* – Fiduciary funds account for assets held for the benefit of parties outside of state government. The State is the trustee, or *fiduciary*, for its employees' pension plans and other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets, where applicable. These funds are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

### **Reconciliation Between Government-wide and Fund Statements**

The financial statements contain schedules that reconcile the differences between the government-wide financial statements (long-term focus, accrual accounting) and the fund financial statements (short-term focus, modified accrual accounting). The following summarizes the primary differences between modified accrual to accrual accounting:

- Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements.
- Capital outlay spending results in expenditures on the governmental fund statements; however, on the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. The excess of capital outlay over depreciation expense is included on the government-wide statement of activities.
- Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces the long-term liabilities on the government-wide statement of net assets.
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities and net revenue of the internal service funds are reported with governmental activities on the government-wide statements.

- Certain tax revenues that are earned, but not available, are reported as revenue on the government-wide statements, but are deferred revenue on the governmental fund statements.
- Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues and expenditures in the funds.

## **Notes to the Financial Statements**

The notes provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

## **Required Supplementary Information**

Following the Basic Financial Statements is the required supplementary information related to budgetary comparison schedules for the governmental funds with legally adopted annual budgets and a schedule of funding progress for pension plans along with notes with explanatory information.

## **Combining Financial Statements and Schedules**

The combining financial statements and schedules include combining statements for the State's nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor discretely presented component units.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The State's combined net assets (governmental and business-type) increased \$1.5 billion over the course of this fiscal year's operations. The net assets of the governmental activities increased \$1 billion, or 14%, and business-type activities had an increase of \$397 million, or 37%. The overall increase in the State's net assets is due primarily to increased Lottery sales, additional taxes collected due in large part to a growing economy, and better management of expenses, including the risk and insurance funds.

## West Virginia

### Net Assets as of June 30 (Expressed in Thousands)

|  | Governmental<br>Activities |                     | Total<br>Business-type<br>Activities |                       | Primary<br>Government |                     |
|--|----------------------------|---------------------|--------------------------------------|-----------------------|-----------------------|---------------------|
|  | 2007                       | 2006                | 2007                                 | 2006                  | 2007                  | 2006                |
| Current and Other Assets                           | \$ 5,427,880               | \$ 3,692,635        | \$ 2,741,694                         | \$ 2,742,943          | \$ 8,169,574          | \$ 6,435,578        |
| Capital Assets                                     | <u>7,865,311</u>           | <u>7,625,885</u>    | <u>4,049</u>                         | <u>2,775</u>          | <u>7,869,360</u>      | <u>7,628,660</u>    |
| Total Assets                                       | <u>13,293,191</u>          | <u>11,318,520</u>   | <u>2,745,743</u>                     | <u>2,745,718</u>      | <u>16,038,934</u>     | <u>14,064,238</u>   |
| Current and Other Liabilities                      | 1,084,823                  | 1,043,875           | 488,015                              | 686,195               | 1,572,838             | 1,730,070           |
| Long-Term Liabilities                              | <u>3,565,334</u>           | <u>2,696,776</u>    | <u>2,931,363</u>                     | <u>3,130,094</u>      | <u>6,496,697</u>      | <u>5,826,870</u>    |
| Total Liabilities                                  | <u>4,650,157</u>           | <u>3,740,651</u>    | <u>3,419,378</u>                     | <u>3,816,289</u>      | <u>8,069,535</u>      | <u>7,556,940</u>    |
| Net Assets:  |                            |                     |                                      |                       |                       |                     |
| Invested in Capital Assets,<br>Net of Related Debt | 6,934,539                  | 6,771,494           | 4,049                                | 2,775                 | 6,938,588             | 6,774,269           |
| Restricted   | 861,508                    | 714,802             | 1,026,973                            | 944,256               | 1,888,481             | 1,659,058           |
| Unrestricted (Deficit)                             | <u>846,987</u>             | <u>91,573</u>       | <u>(1,704,657)</u>                   | <u>(2,017,602)</u>    | <u>(857,670)</u>      | <u>(1,926,029)</u>  |
| Total Net Assets (Deficit)                         | <u>\$ 8,643,034</u>        | <u>\$ 7,577,869</u> | <u>\$ (673,635)</u>                  | <u>\$ (1,070,571)</u> | <u>\$ 7,969,399</u>   | <u>\$ 6,507,298</u> |

### Net Assets

The largest component of the State's net assets is the amount invested in capital assets (e.g., land, buildings, equipment, infrastructure, and others), less any related debt outstanding needed to acquire or construct the assets. Capital assets are used to provide services to citizens; therefore, they are not available for future spending or to pay off their related liabilities. As of June 30, 2007, unrestricted net assets were in a deficit position of \$858 million. This deficit is the result of, among other things, the historical negative claims payment trends of the Workers' Compensation Fund which are improving due to changes in funding the old liability and privatizing the activity on December 31, 2005 (discussed in detail in Note 14). WORKFORCE West Virginia (formerly the Bureau of Employment Programs) and Prepaid Tuition net asset (deficits) (discussed in Note 3), increased Medicaid expenses, substantial unfunded long-term liabilities related to environmental programs, and revenue bonds issued to fund local school construction and economic development grants which exceed currently available resources also contribute to the deficit. A one-time contribution of \$807 million of the proceeds from the TSFA bonds to the Teachers' Retirement System changed the net pension obligation in previous years (\$261 million) to a pension asset (\$966 million).

Restricted net assets comprise 23.7% of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted include funds for construction projects, debt service, lending activities, insurance activities, conservation, and economic development and tourism programs of the State.

## Changes in Net Assets

The chart below represents financial information derived from the Government-wide Statement of Activities and reflects the State's total revenues, expenses, and changes in net assets for the years ended June 30, 2007 and 2006, (expressed in thousands):

|  | Governmental<br>Activities |                    | Business-type<br>Activities |                       | Total<br>Primary<br>Government |                     |
|--|----------------------------|--------------------|-----------------------------|-----------------------|--------------------------------|---------------------|
|  | 2007                       | 2006               | 2007                        | 2006                  | 2007                           | 2006                |
| <b>Revenues</b>  |                            |                    |                             |                       |                                |                     |
| Program Revenues:  |                            |                    |                             |                       |                                |                     |
| Charges for Services   | \$ 419,670                 | \$ 427,161         | \$ 2,506,719                | \$ 2,917,964          | \$ 2,926,389                   | \$ 3,345,125        |
| Operating Grants and Contributions                             | 2,989,980                  | 2,897,802          | —                           | —                     | 2,989,980                      | 2,897,802           |
| Capital Grants and Contributions                               | 420,124                    | 458,087            | 12,627                      | 20,241                | 432,751                        | 478,328             |
| General Revenues:  |                            |                    |                             |                       |                                |                     |
| Personal Income Tax  | 1,372,646                  | 1,330,913          | —                           | —                     | 1,372,646                      | 1,330,913           |
| Consumer Sales Tax   | 1,020,128                  | 981,536            | —                           | —                     | 1,020,128                      | 981,536             |
| Business Taxes   | 906,022                    | 920,940            | —                           | —                     | 906,022                        | 920,940             |
| Transportation Taxes   | 535,979                    | 501,022            | —                           | —                     | 535,979                        | 501,022             |
| Other Taxes  | 556,092                    | 552,584            | —                           | —                     | 556,092                        | 552,584             |
| Other Revenues   | 264,888                    | 178,646            | 230,851                     | 162,605               | 495,739                        | 341,251             |
| <b>Total Revenues</b>  | <b>8,485,529</b>           | <b>8,248,691</b>   | <b>2,750,197</b>            | <b>3,100,810</b>      | <b>11,235,726</b>              | <b>11,349,501</b>   |
| <b>Program Expenses:</b>                                       |                            |                    |                             |                       |                                |                     |
| Legislative  | 26,154                     | 25,345             | —                           | —                     | 26,154                         | 25,345              |
| Judicial   | 88,209                     | 77,789             | —                           | —                     | 88,209                         | 77,789              |
| Executive  | 114,547                    | 104,726            | —                           | —                     | 114,547                        | 104,726             |
| Administration   | 153,677                    | 147,774            | —                           | —                     | 153,677                        | 147,774             |
| Commerce   | 218,610                    | 235,749            | —                           | —                     | 218,610                        | 235,749             |
| Environmental Protection                                       | 225,458                    | 125,216            | —                           | —                     | 225,458                        | 125,216             |
| Employment Programs  | 53,617                     | 72,069             | —                           | —                     | 53,617                         | 72,069              |
| Education  | 2,454,835                  | 2,669,307          | —                           | —                     | 2,454,835                      | 2,669,307           |
| Health and Human Resources                                     | 3,254,172                  | 3,119,005          | —                           | —                     | 3,254,172                      | 3,119,005           |
| Military Affairs and Public Safety                             | 360,443                    | 417,606            | —                           | —                     | 360,443                        | 417,606             |
| Revenue  | 70,148                     | 71,158             | —                           | —                     | 70,148                         | 71,158              |
| Transportation   | 778,817                    | 780,950            | —                           | —                     | 778,817                        | 780,950             |
| Senior Services  | 32,195                     | 30,115             | —                           | —                     | 32,195                         | 30,115              |
| Regulatory Board and Commissions                               | 34,212                     | 33,082             | —                           | —                     | 34,212                         | 33,082              |
| Interest on Long-term Debt                                     | 94,475                     | 93,401             | —                           | —                     | 94,475                         | 93,401              |
| West Virginia Lottery  | —                          | —                  | 1,081,336                   | 1,096,893             | 1,081,336                      | 1,096,893           |
| Workers' Compensation Fund                                     | —                          | —                  | 81,459                      | 392,975               | 81,459                         | 392,975             |
| Unemployment Compensation                                      | —                          | —                  | 153,663                     | 147,308               | 153,663                        | 147,308             |
| Water Pollution Control Revolving Fund                         | —                          | —                  | 1,630                       | 1,718                 | 1,630                          | 1,718               |
| Public Employees' Insurance Agency                             | —                          | —                  | 379,742                     | 545,384               | 379,742                        | 545,384             |
| Board of Risk and Insurance Management                         | —                          | —                  | 39,441                      | 41,256                | 39,441                         | 41,256              |
| Other Nonmajor Business-type                                   | —                          | —                  | 76,785                      | 66,631                | 76,785                         | 66,631              |
| <b>Total Expenses</b>  | <b>7,959,569</b>           | <b>8,003,292</b>   | <b>1,814,056</b>            | <b>2,292,165</b>      | <b>9,773,625</b>               | <b>10,295,457</b>   |
| <b>Increase in Net Assets Before</b>                           |                            |                    |                             |                       |                                |                     |
| Transfers  | 525,960                    | 245,399            | 936,141                     | 808,645               | 1,462,101                      | 1,054,044           |
| <b>Transfers</b>   | <b>539,205</b>             | <b>438,733</b>     | <b>(539,205)</b>            | <b>(438,733)</b>      | <b>—</b>                       | <b>—</b>            |
| <b>Increase in Net Assets</b>                                  | <b>1,065,165</b>           | <b>684,132</b>     | <b>396,936</b>              | <b>369,912</b>        | <b>1,462,101</b>               | <b>1,054,044</b>    |
| <b>Net Assets (Deficit), Beginning of Year</b><br>(See Note 2) | <b>7,577,869</b>           | <b>6,893,737</b>   | <b>(1,070,571)</b>          | <b>(1,440,483)</b>    | <b>6,507,298</b>               | <b>5,453,254</b>    |
| <b>Net Assets (Deficit), End of Year</b>                       | <b>\$8,643,034</b>         | <b>\$7,577,869</b> | <b>\$ (673,635)</b>         | <b>\$ (1,070,571)</b> | <b>\$ 7,969,399</b>            | <b>\$ 6,507,298</b> |

## **Governmental Activities**

The State's net assets before transfers increased by \$281 million for governmental activities, primarily due to the increase of tax revenues, operating grants and contributions, and investment earnings and an overall slight decrease in expenditures.

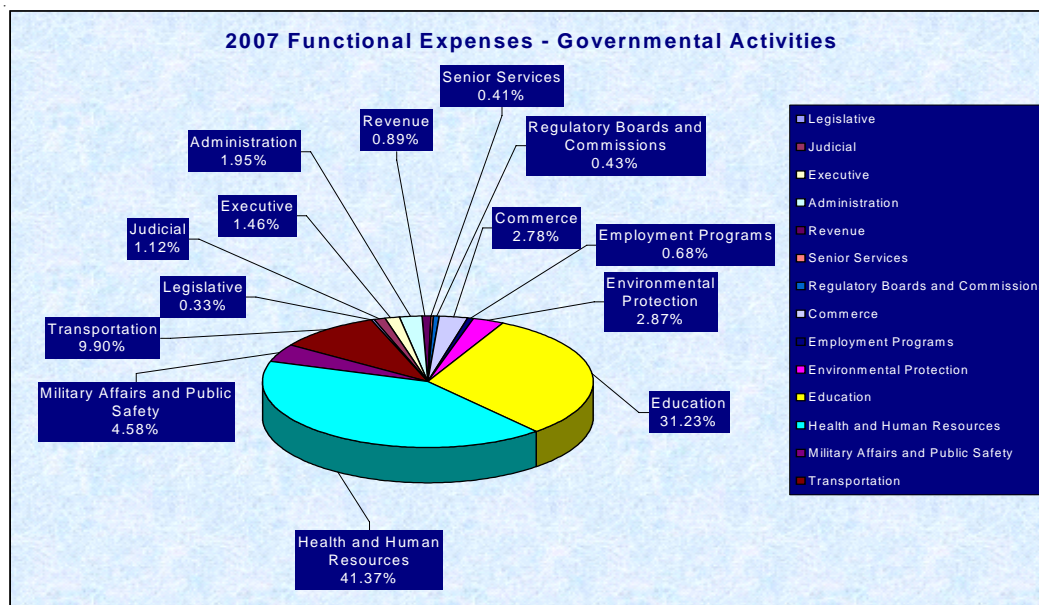
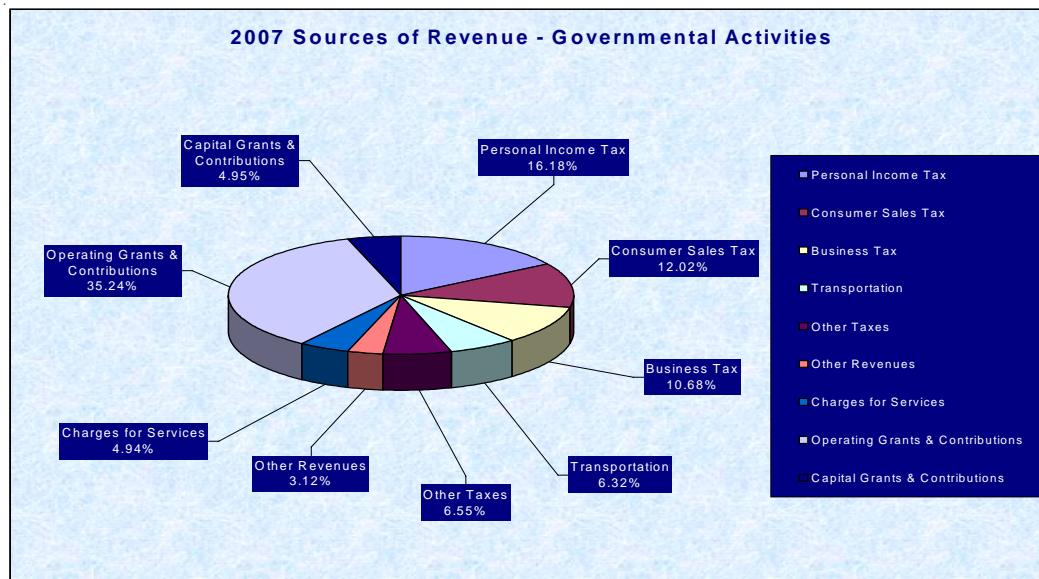
Operating grants and contributions are up \$92 million from last year, primarily due to interest earnings and a smaller than usual Medicaid accrual in FY 2006. The Department of Transportation (DOT) and Military Affairs and Public Safety (MAPS) received \$38 million less federal money for capital grants and contributions.

Personal income tax collections were up \$42 million and consumer sales tax collections were up \$39 million. The increase in collections was largely due to a combination of economic growth, a strong energy sector, higher capital gain realizations, inflation and a change in withholding tax rules. Wage and salary income was 4.7% higher during the first quarter of CY 2007 in comparison to the first quarter of CY 2006. Even though coal and natural gas prices stabilized in FY 2007, the cumulative gains in price over the prior three years resulted in additional investment and employment for this sector as more players sought to profit from the higher prices. According to IRS statistics, total capital gain income claimed on West Virginia tax returns rose by 72% between 2004 and 2005 to nearly \$1.3 billion and the average gain per return rose by 67%. Personal Income taxes on capital gains income now exceed \$100 million per year. After additional gains in both 2006 and 2007, look for some correction in this area on 2008 tax returns due to the recent prolonged stock market correction. DOT's gas tax revenue increased approximately \$35 million primarily because the variable rate component of the tax rose \$.045 per gallon in January of 2007.

Program expenses were up approximately \$100 million in the Environmental Protection function due to changes in long-term environmental liabilities; expenses in Education were down over \$200 million partially because of changes in the Basic State Aid to Schools Formula for public education and various other reductions in spending; the Health and Human Resources (DHHR) function expenses are up \$135 million due to rising costs of health care. Military Affairs and Public Safety's expenses were down approximately \$57 million due to fewer disasters, cuts in federal Homeland Security and other grants.



The following charts depict revenues and expenses, respectively, of the governmental activities for the fiscal year. Approximately 45% of the total revenues came from personal income, consumer sales, business taxes, and transportation taxes, while 40% was in the form of grants and contributions (see chart below). The State's governmental activities expenses include 41% for health and human resources and 31% for education (see chart below).



## **Business-type Activities**

Business-type activities increased the State's net assets by \$127 million before transfers of \$539 million to governmental activities. Significant contributors to this change were:

- The West Virginia Lottery gaming receipts exceeded expenses by approximately \$684 million, an increase of approximately \$32 million. The Lottery's revenues are transferred out to other funds, with the exception of \$250,000 operating funds and \$43 million allocated for a new building.
- The Workers' Compensation Fund (WCF), the Board of Risk and Insurance Management (BRIM), and Public Employees' Insurance Agency (PEIA) had billed premiums in excess of incurred claims, in the amount of \$185 million, \$39 million, and \$48 million, respectively. Overall operating expenses were down. WCF's revenue stream remained stable while the expenses only relate to the run-off of claims incurred prior to July 1, 2005; BRIM had significant reductions in claims primarily from the continued effect of changes in the medical malpractice and general liability programs; PEIA's claims were down due to the transfer of retiree claims to the RHBT; and both BRIM and PEIA had favorable claims development and premium increases.
- Unemployment Compensation recorded income before transfers of approximately \$11 million. This is consistent with the prior year net gain of \$17 million, primarily due to cost controls.

## **FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

### **Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements.

At the end of the current fiscal year, the State's governmental funds reported an ending fund balance of \$3.48 billion, an increase of \$730 million in comparison with the prior year. An improving economy with energy as the lead sector, including a rise in average coal prices and higher natural gas prices, contributed to positive tax revenue growth during the year. Cost controls were also a major factor. Additional financing sources were provided by new debt issues.

**Governmental Fund Balances at June 30, 2007**  
(Expressed in Thousands)

|                        | <u>General<br/>Fund</u> | <u>Transportation</u> | <u>West Virginia<br/>Infrastructure<br/>and Jobs<br/>Development<br/>Council</u> | <u>Tobacco<br/>Settlement<br/>Finance<br/>Authority</u> |
|------------------------|-------------------------|-----------------------|--|---|
| Reserved               | \$ 343,380              | \$ 34,639             | \$408,628  | \$ 96,390   |
| Unreserved, Designated | 559,964                 | —                     | 94,961   | —   |
| Unreserved             | <u>137,740</u>          | <u>289,243</u>        | <u>139,158</u>   | <u>790,091</u>  |
| Total                  | <u>\$1,041,084</u>      | <u>\$323,882</u>      | <u>\$642,747</u>   | <u>\$886,481</u>  |

The nonmajor governmental funds increased \$62 million in the capital projects funds due in large part to the proceeds from the issuance of \$109 million in revenue bonds by the Department of Transportation. Approximately 30% of the total fund balance is unreserved and available for spending in the coming year. The remainder of the fund balance is reserved, indicating it is not available for spending because it has been committed to pay debt service (\$132 million); to fund capital projects (\$265 million); held in permanent funds for education (\$1.8 million); or for a variety of other specific purposes (\$13.8 million).

The general fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$138 million, and the unreserved, designated fund balance was \$560 million, while total fund balance reached \$1.0 billion. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.8% of total general expenditures, while total fund balance represents 13.4% of the same amount.

Cash and investments in the general fund are up \$211 million due to increased investment earnings, an increase in personal income and consumer sales tax collections and an increase in intergovernmental revenue.

MAPS expenditures continued to decrease approximately \$36 million over the prior year, primarily due to fewer disasters. Education's expenses were up approximately \$904 million primarily due to contributions to the TRS retirement system from the general fund and proceeds of the TSFA bonds. DHHR's expenses were up \$115 million due primarily to the decrease of Medicaid last year and an increase to Medicaid this year and a \$7.9 million increase in food stamp distribution.

Transportation had an unreserved fund balance of \$289 million, up 37% from the prior year primarily due to cost containment measures. The reserved balance of \$34.6 million is primarily for inventory. Transportation revenues were down \$6.7 million primarily from lower federal revenues offset by the \$.045 increase in the variable component of the fuel tax rate, and expenditures were down \$79 million due to decreased road construction and other reductions in spending.



The West Virginia Infrastructure and Jobs Development Council's total fund balance increased \$71.4 million and the unreserved fund balance increased \$57 million. These changes were due to an increase in dedicated mineral severance taxes, excess lottery appropriations, interest on loans, investment earnings, and proceeds from a revenue bond issue. The reserved fund balance, \$408.6 million, is money committed but not distributed to entities for loans/grants (\$47.2 million) and loans receivable (\$350.3 million) which are not available for appropriation. Revenues increased \$2.8 million due to higher investment earnings primarily explained by an increase in funds invested.

### **Proprietary Funds**

The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds are comprised of enterprise and internal service funds. Enterprise funds are used when services the State provides are charged to external customers. Internal service funds are used when services are provided to other state agencies. The six major enterprise funds include the West Virginia Lottery, Water Pollution Control Revolving Fund, Workers' Compensation Funds, Unemployment Compensation, Public Employees' Insurance Agency, and the Board of Risk and Insurance Management.

Other factors concerning the finances of the major enterprise funds have already been addressed in the discussion of business-type activities.

### **GENERAL REVENUE FUND BUDGETARY HIGHLIGHTS**

The revenues of the final amended budget increased by approximately \$28 million. The revenue estimate increased because of a better than expected return on investments, by \$16 million. Corporate income/business franchise, business and occupation, and other taxes increased \$5 million, \$3 million, and \$4 million, respectively.

A positive variance between the final budgeted revenues and actual results arose from larger than expected increases in personal income tax (\$42.2 million) and corporate income/business franchise tax (\$57.6 million).

The increased revenues of the final amended budget allowed the budgeted expenditures to increase approximately \$27.7 million. The following departments received the majority of the increases: DHHR received approximately \$7 million for increased hospital costs and \$2 million for health care costs. Commerce received \$1.2 million related to coal mine safety issues. Education received \$3.6 million to pay off long-term debt. MAPS received \$6 million for increased homeland security and jail costs. The Revenue Department was appropriated \$6 million to transfer to WORKFORCE West Virginia for possible pay back to the USDOL for federal grant disallowances.

The positive variance of the excess of revenues over expenditures was approximately \$217.3 million from increased revenues and cautious spending. After expenditures from prior year appropriations, \$53.4 million was deposited into the State's Rainy Day Fund.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2007 the State had invested \$7.9 billion, net of accumulated depreciation, in a broad range of capital assets shown below. Depreciation expense for the year totaled \$311 million.

**Capital Assets at Year-End**  
(Expressed in Thousands)

|                           | <b>Governmental<br/>Activities</b> |                    | <b>Business-type<br/>Activities</b> |                | <b>Total<br/>Primary<br/>Government</b> |                    |
|---------------------------|------------------------------------|--------------------|-------------------------------------|----------------|---|--------------------|
|                           | <u>2007</u>                        | <u>2006</u>        | <u>2007</u>                         | <u>2006</u>    | <u>2007</u>                             | <u>2006</u>        |
| Land and Improvements     | \$ 944,488                         | \$ 906,569         | \$ 611                              | \$ 611         | \$ 945,099                              | \$ 907,180         |
| Building and Improvements | 574,360                            | 547,790            | 1,242                               | 1,371          | 575,602                                 | 549,161            |
| Equipment                 | 100,657                            | 90,728             | 1,753                               | 793            | 102,410                                 | 91,521             |
| Library Holdings          | 178                                | 336                | —                                   | —              | 178                                     | 336                |
| Construction in Progress  | 1,328,732                          | 1,249,836          | 443                                 | —              | 1,329,175                               | 1,249,836          |
| Infrastructure            | <u>4,916,896</u>                   | <u>4,830,626</u>   | <u>—</u>                            | <u>—</u>       | <u>4,916,896</u>                        | <u>4,830,626</u>   |
| Totals                    | <u>\$7,865,311</u>                 | <u>\$7,625,885</u> | <u>\$4,049</u>                      | <u>\$2,775</u> | <u>\$7,869,360</u>                      | <u>\$7,628,660</u> |

The total increase, net of disposals and accumulated depreciation, in the State's investment in capital assets for the current fiscal year approximated \$241 million. The most significant increases in capital assets during the year were \$86 million of infrastructure and \$79 million in construction in progress. These increases are primarily related to the acquisition of right of way and construction of roads and bridges under the Transportation function. The increase in the business-type activities is primarily related to the purchase of equipment by the Lottery Commission. Additional information for the State's capital assets can be found in Note 9 of this report.

### Long-Term Debt

At year-end the State had \$7.6 billion in bonds, capital leases, notes payable, claims and judgments, compensated absences, pension obligations, and other long-term obligations outstanding, as shown in the table below. The State's general obligation bonds are rated AA- by Standard and Poor's Corporation and Fitch Investors Service. The Moody's Investors Service rating is Aa3.

Several bond insurance companies that provide guarantees on certain bonds of the State have recently been downgraded by Fitch and Moody's ratings agencies, due to the subprime crisis. The Ambac downgrade caused two of the State's bond issues to be downgraded also, from AAA to AA and a material event filing was made. The downgrade of Financial Guaranty Insurance Company (FGIC) did not change the underlying ratings of the State's FGIC insured bonds. The State is unable to determine the total impact this will have on its operations. To date, the downgrade of the bond insurers' ratings has resulted in an increase in interest rates for certain debt issues.

More detailed information related to the State's overall debt position is presented in Note 10 to the financial statements.

The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of the general obligation debt. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature primarily for the purpose of financing capital construction. Neither the West Virginia Constitution nor its statutes establish a general limit on any type of debt, although certain agencies have debt limits in their specific Code sections.

**Outstanding Debt at June 30**  
(Expressed in Thousands)

|                                     | <b>Governmental<br/>Activities</b> |                    | <b>Total<br/>Business-type<br/>Activities</b> |                    | <b>Primary<br/>Government</b> |                    |
|-------------------------------------|------------------------------------|--------------------|---|--------------------|-------------------------------|--------------------|
|                                     | <b><u>2007</u></b>                 | <b><u>2006</u></b> | <b><u>2007</u></b>                            | <b><u>2006</u></b> | <b><u>2007</u></b>            | <b><u>2006</u></b> |
| General Obligation Bonds            | \$ 744,790                         | \$ 772,912         | \$ —  | \$ —               | \$ 744,790                    | \$ 772,912         |
| Revenue Bonds                       | 1,742,647                          | 726,249            | —   | —                  | 1,742,647                     | 726,249            |
| Capital Leases                      | 333,815                            | 348,091            | —   | —                  | 333,815                       | 348,091            |
| Notes Payable                       | 9,998                              | 5,909              | —   | —                  | 9,998                         | 5,909              |
| Accrued and Other Liabilities       | 1,099,735                          | 972,421            | 116,157                                       | 108,973            | 1,215,892                     | 1,081,394          |
| Insurance and Compensation Benefits | —                                  | —                  | 3,213,042                                     | 3,546,541          | 3,213,042                     | 3,546,541          |
| Compensated Absences                | 268,937                            | 278,444            | 3,117   | 4,511              | 272,054                       | 282,955            |
| Pension Obligations                 | <u>65,847</u>                      | <u>260,822</u>     | <u>—</u>                                      | <u>—</u>           | <u>65,847</u>                 | <u>260,822</u>     |
| Totals                              | <u>\$4,265,769</u>                 | <u>\$3,364,848</u> | <u>\$3,332,316</u>                            | <u>\$3,660,025</u> | <u>\$7,598,085</u>            | <u>\$7,024,873</u> |

West Virginia Infrastructure and Jobs Development Council issued \$94.2 million in general obligation bonds to partially refund the State's outstanding Series 1996A, 1996D, and 1998A general obligation bonds and \$38.2 million in new revenue bonds.



The Department of Transportation issued revenue bonds in the amount of \$109 million that will be funded through federal aid revenue and plans to issue \$91 million in 2008.

The School Building Authority issued Capital Improvement Revenue Refunding Bonds at lower interest rates and paid \$197.2 million in outstanding bonds from the 1997A and 1997B Series, ultimately saving \$14.5 million over the next 15 years.

The Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007 were issued by the Tobacco Settlement Finance Authority (the Authority) created by Chapter 4, Article 11A of the Code of West Virginia (the Code) on June 26, 2007. Pursuant to the Code, and a Purchase and Sale Agreement, dated June 1, 2007, by and between the Authority and the State, the State sold to the Authority its right, title, and interest in and to all tobacco settlement revenue that is received by the State, under the terms of the Master Settlement Agreement entered into by participating tobacco product manufacturers, West Virginia, 45 other states, and six other U.S. jurisdictions in November 1998. The Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007 are comprised of two series of turbo term bonds, the Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007A, which are current interest bonds in the amount of \$845,810,000, and the Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007B, which are capital appreciation bonds in the amount of \$65,331,503.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Looking forward to FY 2008, the anticipated General Revenue forecast indicates a trend of slower revenue growth with some potential for significant short-term downward volatility followed by a longer term trend much more in line with normal growth patterns. However, because the recent growth in the General Revenue Fund for the past two years has outpaced the expenditure need in the short term, there is anticipated to be a General Revenue surplus in FY 2008.

Due to the surplus described above, it has been recommended that \$117 million in additional funds be put into the Revenue Shortfall Reserve Fund (Rainy Day Fund) in 2008. Increased tax revenue associated with higher energy prices and strong gaming revenues, along with continued efficiencies and program review, will assist in providing funds that will be needed in the future, not only for the anticipated shortfalls predicted beginning FY 2009 but also unknown and unanticipated contingencies or emergencies. These funds may also be used to fund additional payments of unfunded liabilities in the Teachers' Retirement System, possible payments required to address unfunded other postemployment benefits, or for other "one-time" needs. These surplus funds are not intended to be used for new programs or to increase the current "base budget" of the State.

Careful budgetary planning and responsible government initiatives provided the capacity for recent General Revenue Fund tax reductions totaling more than \$100 million. The tax reductions are associated with a variety of tax reform measures recently adopted by the Legislature, including the continued decrease of the consumer sales tax related to food on July 1, 2008, to 3%.

From the funds available for FY 2008, the major items of increased expenditures in the Governor's Executive Budget are as follows:

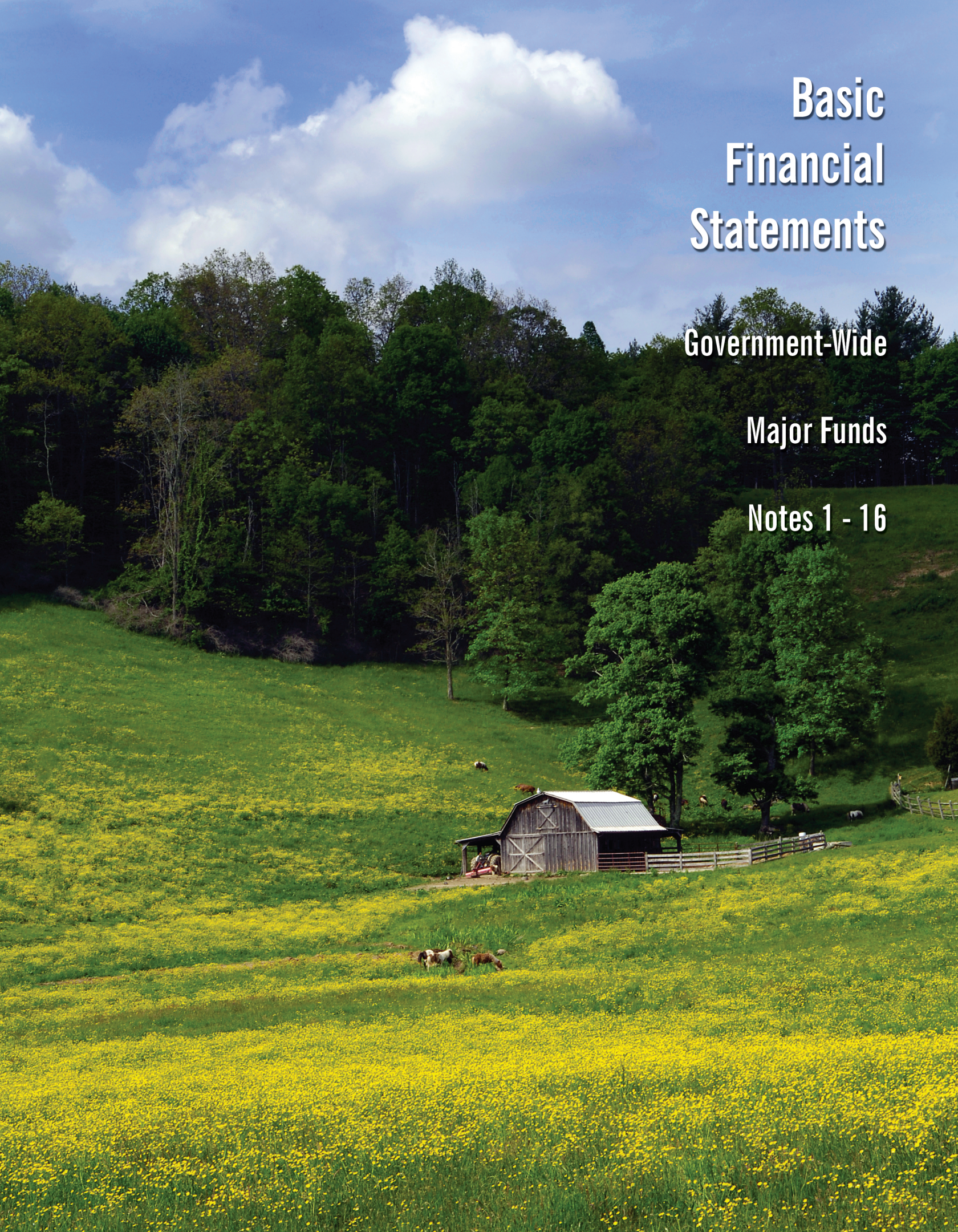
- Funding for school access safety
- Funding for Aged and Disabled Waiver/Senior Services and social service programs
- Funding for public health and behavioral health programs
- Funding to address ongoing routine maintenance and repair of State-owned facilities
- Funding for higher education scholarships, institutional costs, and research
- Funding for nutrition programs and in-home services for senior citizens
- Funding for the enhancement of State troopers' salaries
- Funding for monetary incentives for State employees and school service personnel
- Funding for programs that were funded by Tobacco Master Settlement moneys
- Funding for Professional Educators pay raise of 2.5% and continued funding for Public Education's "Gap Fill"
- Funding for the "Rainy Day Fund"
- Funding for retiree postemployment benefits
- Additional funding for the Teachers' Retirement System's "Unfunded Liability"

The FY 2008 budget includes a six-year plan showing the projected revenues and expenditures from FY 2007 through FY 2012. The goal of the six-year plan is to provide the West Virginia Legislature and citizens a clear understanding of not only the FY 2008 budget, but also, the larger implications of the decisions made today on the future fiscal outlook.

## **CONTACTING THE STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Financial Accounting and Reporting Section, 2101 Washington St. East, Building 17, 3<sup>rd</sup> Floor, Charleston, WV 25305.





# Basic Financial Statements

Government-Wide

Major Funds

Notes 1 - 16



**Statement of Net Assets**  
**June 30, 2007**  
(Expressed in Thousands)

|  | Primary Government         |                             |                   |                    |
|--|----------------------------|-----------------------------|-------------------|--------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total             | Component<br>Units |
| Assets:                                    |                            |                             |                   |                    |
| Current Assets:                            |                            |                             |                   |                    |
| Cash and Cash Equivalents                  | \$ 1,766,341               | \$1,743,759                 | \$ 3,510,100      | \$ 497,502         |
| Investments                                | 922,622                    | —                           | 922,622           | 16,671             |
| Receivables, Net                           | 1,007,225                  | 123,249                     | 1,130,474         | 120,822            |
| Due from Other Governments                 | 224,578                    | 1,355                       | 225,933           | 35                 |
| Due from Primary Government                | —                          | —                           | —                 | 12,922             |
| Due from Fiduciary Funds                   | 58                         | 2                           | 60                | —                  |
| Due from Component Units                   | 815                        | 869                         | 1,684             | —                  |
| Internal Balances                          | 282,637                    | (282,637)                   | —                 | —                  |
| Inventories                                | 45,693                     | 462                         | 46,155            | 8,774              |
| Other Assets                               | 4,966                      | 1,176                       | 6,142             | 6,528              |
| Restricted Assets:                         |                            |                             |                   |                    |
| Cash and Cash Equivalents                  | 1,090                      | 9,337                       | 10,427            | 93,515             |
| Investments                                | —                          | 23                          | 23                | 5,266              |
| Receivables, Net                           | —                          | 372                         | 372               | —                  |
| Other Restricted Assets                    | —                          | 115,836                     | 115,836           | 259                |
| Total Current Assets                       | <u>4,256,025</u>           | <u>1,713,803</u>            | <u>5,969,828</u>  | <u>762,294</u>     |
| Noncurrent Assets:                         |                            |                             |                   |                    |
| Cash and Cash Equivalents                  | —                          | 3,943                       | 3,943             | 43,425             |
| Investments                                | —                          | 368,575                     | 368,575           | 338,571            |
| Receivables, Net                           | 29,174                     | 601,244                     | 630,418           | 251,222            |
| Other Assets                               | 6,201                      | —                           | 6,201             | 48,630             |
| Advance to Component Units                 | 127,470                    | —                           | 127,470           | —                  |
| Net Pension Asset                          | 966,150                    | —                           | 966,150           | —                  |
| Restricted Assets:                         |                            |                             |                   |                    |
| Cash and Cash Equivalents                  | 42,860                     | 30,367                      | 73,227            | 65,963             |
| Investments                                | —                          | 23,762                      | 23,762            | 141,821            |
| Receivables, Net                           | —                          | —                           | —                 | 1,139,442          |
| Other Restricted Assets                    | —                          | —                           | —                 | 6,399              |
| Land and Other Capital Assets              |                            |                             |                   |                    |
| Not Being Depreciated                      | 2,265,734                  | 1,054                       | 2,266,788         | 395,894            |
| Capital Assets, Being Depreciated          |                            |                             |                   |                    |
| (Net of Accumulated Depreciation)          | <u>5,599,577</u>           | <u>2,995</u>                | <u>5,602,572</u>  | <u>1,983,282</u>   |
| Total Noncurrent Assets                    | <u>9,037,166</u>           | <u>1,031,940</u>            | <u>10,069,106</u> | <u>4,414,649</u>   |
| Total Assets                               | <u>13,293,191</u>          | <u>2,745,743</u>            | <u>16,038,934</u> | <u>5,176,943</u>   |
| Liabilities:                               |                            |                             |                   |                    |
| Current Liabilities:                       |                            |                             |                   |                    |
| Accounts Payable                           | 225,061                    | 26,890                      | 251,951           | 63,502             |
| Interest Payable                           | 6,532                      | —                           | 6,532             | 13,330             |
| Accrued Tuition Contract Benefits          | —                          | 9,372                       | 9,372             | —                  |
| Accrued and Other Liabilities              | 495,323                    | 36,691                      | 532,014           | 65,704             |
| Due to Other Governments                   | 135,078                    | 6,876                       | 141,954           | —                  |
| Due to Primary Government                  | —                          | —                           | —                 | 1,684              |
| Due to Fiduciary Funds                     | 63                         | 4,497                       | 4,560             | 153                |
| Due to Component Units                     | 12,666                     | 256                         | 12,922            | —                  |
| Unearned Revenue                           | 4,988                      | 11,852                      | 16,840            | 61,986             |
| Insurance and Compensation                 |                            |                             |                   |                    |
| Benefits Obligations                       | —                          | 391,386                     | 391,386           | —                  |
| Liabilities Payable from Restricted Assets | —                          | 159                         | 159               | —                  |
| General Obligation Debt                    | 43,611                     | —                           | 43,611            | —                  |
| Revenue Bonds Payable                      | 72,960                     | —                           | 72,960            | 63,709             |
| Capital Leases and Other Debt              | 17,010                     | —                           | 17,010            | 7,299              |
| Compensated Absences                       | <u>71,531</u>              | <u>36</u>                   | <u>71,567</u>     | <u>39,214</u>      |
| Total Current Liabilities                  | <u>1,084,823</u>           | <u>488,015</u>              | <u>1,572,838</u>  | <u>316,581</u>     |

The accompanying notes are an integral part of the financial statements.

|  | Primary Government         |                             |                     |                    |
|--|----------------------------|-----------------------------|---------------------|--------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total               | Component<br>Units |
| Noncurrent Liabilities:                            |                            |                             |                     |                    |
| Accrued Tuition Contract Benefits                  | —                          | 106,487                     | 106,487             | —                  |
| Accrued and Other Liabilities                      | 604,412                    | —                           | 604,412             | 82,924             |
| Unearned Revenue                                   | —                          | —                           | —                   | 3,763              |
| Insurance and Compensation<br>Benefits Obligations | —                          | 2,821,656                   | 2,821,656           | —                  |
| Advances from Primary Government                   | —                          | —                           | —                   | 127,470            |
| Liabilities Payable from Restricted Assets         | —                          | 139                         | 139                 | 92,022             |
| General Obligation Debt                            | 701,179                    | —                           | 701,179             | —                  |
| Revenue Bonds Payable                              | 1,669,687                  | —                           | 1,669,687           | 1,812,482          |
| Capital Leases and Other Debt                      | 326,803                    | —                           | 326,803             | 66,413             |
| Net Pension Obligation                             | 65,847                     | —                           | 65,847              | —                  |
| Compensated Absences                               | 197,406                    | 3,081                       | 200,487             | 73,575             |
| Total Noncurrent Liabilities                       | <u>3,565,334</u>           | <u>2,931,363</u>            | <u>6,496,697</u>    | <u>2,258,649</u>   |
| Total Liabilities                                  | <u>4,650,157</u>           | <u>3,419,378</u>            | <u>8,069,535</u>    | <u>2,575,230</u>   |
| Net Assets:  |                            |                             |                     |                    |
| Invested in Capital Assets,<br>Net of Related Debt | 6,934,539                  | 4,049                       | 6,938,588           | 1,510,240          |
| Restricted for:                                    |                            |                             |                     |                    |
| Capital Projects                                   | 69,238                     | 30,367                      | 99,605              | 21,337             |
| Debt Service                                       | 225,659                    | —                           | 225,659             | 10,038             |
| Program Administration                             | 18,402                     | 7,137                       | 25,539              | —                  |
| Permanent Funds:                                   |                            |                             |                     |                    |
| Nonexpendable                                      | 1,000                      | —                           | 1,000               | 114,346            |
| Expendable   | 762                        | —                           | 762                 | —                  |
| Lending Activities                                 | —                          | 540,518                     | 540,518             | 296,744            |
| Insurance Activities                               | —                          | 448,951                     | 448,951             | —                  |
| Economic Development and Tourism                   | 28,046                     | —                           | 28,046              | —                  |
| Education  | 12,163                     | —                           | 12,163              | —                  |
| Wildlife Management and Conservation               | 14,985                     | —                           | 14,985              | —                  |
| Specific Fund/Component Unit Purposes              | 491,253                    | —                           | 491,253             | 214,133            |
| Unrestricted (Deficit)                             | <u>846,987</u>             | <u>(1,704,657)</u>          | <u>(857,670)</u>    | <u>434,875</u>     |
| Total Net Assets (Deficit)                         | <u>\$8,643,034</u>         | <u>\$ (673,635)</u>         | <u>\$ 7,969,399</u> | <u>\$2,601,713</u> |

# West Virginia

## Statement of Activities For the Fiscal Year Ended June 30, 2007 (Expressed in Thousands)

| Functions  | Expenses           | Program Revenues           |  |  |
|--|--------------------|----------------------------|--|--|
|  |                    | Charges<br>for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |
| <b>Primary Government:</b>                                   |                    |                            |  |  |
| Governmental Activities:                                     |                    |                            |  |  |
| Legislative  | \$ 26,154          | \$ 1,757                   | \$ 1,269                                 | \$ —                                   |
| Judicial   | 88,209             | 869                        | 380                                      | —                                      |
| Executive  | 114,547            | 12,024                     | 38,249                                   | —                                      |
| Administration   | 153,677            | 24,812                     | 37,945                                   | 4,001                                  |
| Commerce   | 218,610            | 44,114                     | 47,463                                   | —                                      |
| Environmental Protection                                     | 225,458            | 56,621                     | 53,301                                   | —                                      |
| Employment Programs  | 53,617             | —                          | 54,690                                   | —                                      |
| Education  | 2,454,835          | 3,008                      | 388,305                                  | 31                                     |
| Health and Human Resources                                   | 3,254,172          | 83,230                     | 2,235,552                                | —                                      |
| Military Affairs and Public Safety                           | 360,443            | 10,165                     | 52,708                                   | 5,423                                  |
| Revenue  | 70,148             | 65,364                     | 66,214                                   | —                                      |
| Transportation   | 778,817            | 96,068                     | —  | 410,669                                |
| Senior Services  | 32,195             | —                          | 11,637                                   | —                                      |
| Regulatory Boards and Commissions                            | 34,212             | 21,638                     | 2,267                                    | —                                      |
| Interest on Long-Term Debt                                   | 94,475             | —                          | —  | —                                      |
| Total Governmental Activities                                | <u>7,959,569</u>   | <u>419,670</u>             | <u>2,989,980</u>                         | <u>420,124</u>                         |
| Business-type Activities:                                    |                    |                            |  |  |
| West Virginia Lottery  | 1,081,336          | 1,562,259                  | —  | —                                      |
| Water Pollution Control Revolving Fund                       | 1,630              | 3,744                      | —  | 12,627                                 |
| Workers' Compensation Fund                                   | 81,459             | 235,664                    | —  | —                                      |
| Unemployment Compensation                                    | 153,663            | 147,091                    | —  | —                                      |
| Public Employees' Insurance Agency                           | 379,742            | 406,311                    | —  | —                                      |
| Board of Risk and Insurance Management                       | 39,441             | 74,097                     | —  | —                                      |
| Other Activities   | 76,785             | 77,553                     | —  | —                                      |
| Total Business-type Activities                               | <u>1,814,056</u>   | <u>2,506,719</u>           | <u>—</u>                                 | <u>12,627</u>                          |
| Total Primary Government                                     | <u>\$9,773,625</u> | <u>\$2,926,389</u>         | <u>\$2,989,980</u>                       | <u>\$432,751</u>                       |
| <b>Component Units:</b>                                      |                    |                            |  |  |
| Economic Development Authority                               | \$ 8,317           | \$ 10,615                  | \$ —                                     | \$ —                                   |
| Housing Development Authority                                | 114,391            | 60,930                     | 59,845                                   | —                                      |
| Parkways, Economic Development,<br>and Tourism Authority     | 75,331             | 65,822                     | —  | —                                      |
| Water Development Authority                                  | 13,822             | 15,829                     | —  | —                                      |
| Higher Education   | 1,364,663          | 585,125                    | 340,425                                  | 87,087                                 |
| Regional Jail Authority                                      | 79,165             | 77,005                     | —  | —                                      |
| Other Component Units  | 40,048             | 11,874                     | 1,327                                    | —                                      |
| Total Component Units  | <u>\$1,695,737</u> | <u>\$ 827,200</u>          | <u>\$ 401,597</u>                        | <u>\$ 87,087</u>                       |
| General Revenues:  |                    |                            |  |  |
| Taxes:   |                    |                            |  |  |
| Personal Income  |                    |                            |  |  |
| Consumer Sales   |                    |                            |  |  |
| Business   |                    |                            |  |  |
| Medicaid   |                    |                            |  |  |
| Transportation   |                    |                            |  |  |
| Other  |                    |                            |  |  |
| Grants and Contributions not Restricted to Specific Programs |                    |                            |  |  |
| Unrestricted Investment Earnings                             |                    |                            |  |  |
| Tobacco Settlement Revenue                                   |                    |                            |  |  |
| Payments from State of West Virginia                         |                    |                            |  |  |
| Miscellaneous  |                    |                            |  |  |
| Transfers  |                    |                            |  |  |
| Total General Revenues and Transfers                         |                    |                            |  |  |
| Change in Net Assets   |                    |                            |  |  |
| Net Assets (Deficit), Beginning of Year, as Restated         |                    |                            |  |  |
| Net Assets (Deficit), End of Year                            |                    |                            |  |  |

The accompanying notes are an integral part of the financial statements.



| Net (Expense) Revenue and Changes in Net Assets |                                  |                     |                    |
|---|----------------------------------|---------------------|--------------------|
| Primary Government                              |                                  |                     |                    |
| Governmental<br>Activities                      | Business -<br>type<br>Activities | Total               | Component<br>Units |
| \$ (23,128)                                     |                                  | \$ (23,128)         |                    |
| (86,960)  |                                  | (86,960)            |                    |
| (64,274)  |                                  | (64,274)            |                    |
| (86,919)  |                                  | (86,919)            |                    |
| (127,033)                                       |                                  | (127,033)           |                    |
| (115,536)                                       |                                  | (115,536)           |                    |
| 1,073   |                                  | 1,073               |                    |
| (2,063,491)                                     |                                  | (2,063,491)         |                    |
| (935,390)                                       |                                  | (935,390)           |                    |
| (292,147)                                       |                                  | (292,147)           |                    |
| 61,430  |                                  | 61,430              |                    |
| (272,080)                                       |                                  | (272,080)           |                    |
| (20,558)  |                                  | (20,558)            |                    |
| (10,307)  |                                  | (10,307)            |                    |
| <u>(94,475)</u>                                 |                                  | <u>(94,475)</u>     |                    |
| <u>(4,129,795)</u>                              |                                  | <u>(4,129,795)</u>  |                    |
| —   | \$ 480,923                       | 480,923             |                    |
| —   | 14,741                           | 14,741              |                    |
| —   | 154,205                          | 154,205             |                    |
| —   | (6,572)                          | (6,572)             |                    |
| —   | 26,569                           | 26,569              |                    |
| —   | 34,656                           | 34,656              |                    |
| —   | 768                              | 768                 |                    |
| —   | <u>705,290</u>                   | <u>705,290</u>      |                    |
| <u>(4,129,795)</u>                              | <u>705,290</u>                   | <u>(3,424,505)</u>  |                    |
| —   | —                                | —                   | \$ 2,298           |
| —   | —                                | —                   | 6,384              |
| —   | —                                | —                   | (9,509)            |
| —   | —                                | —                   | 2,007              |
| —   | —                                | —                   | (352,026)          |
| —   | —                                | —                   | (2,160)            |
| —   | —                                | —                   | <u>(26,847)</u>    |
| —   | —                                | —                   | <u>(379,853)</u>   |
| 1,372,646                                       | —                                | 1,372,646           | —                  |
| 1,020,128                                       | —                                | 1,020,128           | —                  |
| 906,022   | —                                | 906,022             | —                  |
| 162,692   | —                                | 162,692             | —                  |
| 535,979   | —                                | 535,979             | —                  |
| 393,400   | —                                | 393,400             | —                  |
| —   | —                                | —                   | 16,207             |
| 105,317   | 189,761                          | 295,078             | 74,102             |
| 48,294  | 15,000                           | 63,294              | —                  |
| —   | —                                | —                   | 447,360            |
| 111,277   | 26,090                           | 137,367             | 6,565              |
| <u>539,205</u>                                  | <u>(539,205)</u>                 | <u>—</u>            | <u>—</u>           |
| <u>5,194,960</u>                                | <u>(308,354)</u>                 | <u>4,886,606</u>    | <u>544,234</u>     |
| 1,065,165                                       | 396,936                          | 1,462,101           | 164,381            |
| <u>7,577,869</u>                                | <u>(1,070,571)</u>               | <u>6,507,298</u>    | <u>2,437,332</u>   |
| <u>\$ 8,643,034</u>                             | <u>\$ (673,635)</u>              | <u>\$ 7,969,399</u> | <u>\$2,601,713</u> |

# *GOVERNMENTAL FUND FINANCIAL STATEMENTS*

## *Major Funds*

**General** This fund is used as the State's operating fund. It accounts for the financial resources and transactions that are not accounted for in other funds. The revenues are from taxes and other general revenues.

**Transportation** The governmental fund types of the Department of Transportation (the Department) are included in this Fund. The Division of Highways has statutory responsibility for the construction, maintenance, and improvement of all state roads. Transportation expenditures funded by registration fees, license fees, and automobile privilege taxes (fees and taxes) are recorded in the State Road Fund within the Division of Highways. These fees and taxes, among other revenue sources, are collected by the Division of Motor Vehicles, which is also in the Department. The Department also includes the Division of Public Transit, which administers all federal and state programs that develop public transportation facilities, services, equipment, and methods; the West Virginia Aeronautics Commission, which has general supervision and controls commercial, state, and municipal airports; and the West Virginia Public Port Authority.

**West Virginia Infrastructure and Jobs Development Council** The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

**The Tobacco Settlement Finance Authority** The Authority was created to issue revenue bonds related to the State's portion of the tobacco receipts from the Master Settlement Agreement between tobacco manufacturers and the covered states. The revenue bonds were sold June 26, 2007. See Note 10 for more information.

Nonmajor governmental funds are presented, by fund type, beginning on page 174.

**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**  
**(Expressed in Thousands)**

|  | <u>General</u>     | <u>Transportation</u> | <u>West Virginia<br/>Infrastructure<br/>and Jobs<br/>Development<br/>Council</u> | <u>Tobacco<br/>Settlement<br/>Finance<br/>Authority</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>       |
|--|--------------------|-----------------------|--|---|---|--------------------|
| <b>Assets:</b>                             |                    |                       |  |   |   |                    |
| Cash and Cash Equivalents                  | \$ 852,053         | \$205,793             | \$158,806  | \$ 98,507   | \$437,567                               | \$1,752,726        |
| Investments                                | 571,384            | —                     | 132,284  | —   | 218,954                                 | 922,622            |
| Receivables, Net                           | 461,823            | 162,204               | 351,774  | 34,942  | 11,542                                  | 1,022,285          |
| Due from Other Governments                 | 224,043            | —                     | —  | —   | 535                                     | 224,578            |
| Due from Other Funds                       | 288,319            | 628                   | —  | 790,090   | 1,394                                   | 1,080,431          |
| Due from Component Units                   | 537                | 43                    | —  | —   | —                                       | 580                |
| Advances to Component Units                | 127,470            | —                     | —  | —   | —                                       | 127,470            |
| Inventories                                | 10,521             | 34,639                | —  | —   | —                                       | 45,160             |
| Other Assets                               | 2,455              | 51                    | —  | —   | 37                                      | 2,543              |
| Restricted Assets:                         |                    |                       |  |   |   |                    |
| Cash and Cash Equivalents                  | —                  | 50                    | —  | —   | 577                                     | 627                |
| <b>Total Assets</b>                        | <u>\$2,538,605</u> | <u>\$403,408</u>      | <u>\$642,864</u>   | <u>\$923,539</u>  | <u>\$670,606</u>                        | <u>\$5,179,022</u> |
| <b>Liabilities:</b>                        |                    |                       |  |   |   |                    |
| Accounts Payable                           | \$ 129,456         | \$ 56,089             | \$ 19  | \$ 2,117  | \$ 26,110                               | \$ 213,791         |
| Accrued and Other Liabilities              | 416,970            | 16,994                | —  | —   | 34,908                                  | 468,872            |
| Deferred Revenue                           | 26,797             | —                     | —  | 34,941  | —                                       | 61,738             |
| Due to Other Governments                   | 110,560            | 4,098                 | —  | —   | 20,326                                  | 134,984            |
| Due to Other Funds                         | 801,269            | 2,303                 | —  | —   | 1,428                                   | 805,000            |
| Due to Component Units                     | 12,469             | 42                    | 98   | —   | 40                                      | 12,649             |
| <b>Total Liabilities</b>                   | <u>1,497,521</u>   | <u>79,526</u>         | <u>117</u>   | <u>37,058</u>   | <u>82,812</u>                           | <u>1,697,034</u>   |
| <b>Fund Balances:</b>                      |                    |                       |  |   |   |                    |
| Reserved for:                              |                    |                       |  |   |   |                    |
| Inventories                                | 10,521             | 34,639                | —  | —   | —                                       | 45,160             |
| Capital Projects                           | —                  | —                     | —  | —   | 264,836                                 | 264,836            |
| Debt Service                               | —                  | —                     | —  | 96,390  | 132,309                                 | 228,699            |
| Program Administration                     | 4,560              | —                     | —  | —   | 13,842                                  | 18,402             |
| Specific Fund Purposes                     | 198,258            | —                     | —  | —   | —                                       | 198,258            |
| Lending Activities                         | —                  | —                     | 408,628  | —   | —                                       | 408,628            |
| Permanent Funds                            | —                  | —                     | —  | —   | 1,762                                   | 1,762              |
| Loans Receivable                           | 130,041            | —                     | —  | —   | —                                       | 130,041            |
| Unreserved, designated for:                |                    |                       |  |   |   |                    |
| Revenue Shortfall Reserve                  | 514,945            | —                     | —  | —   | —                                       | 514,945            |
| Income Tax Reserve Fund                    | 45,019             | —                     | —  | —   | —                                       | 45,019             |
| Loans and Grants                           | —                  | —                     | 94,961   | —   | —                                       | 94,961             |
| Unreserved:                                |                    |                       |  |   |   |                    |
| Special Revenue Funds                      | —                  | 289,243               | 139,158  | 790,091   | 175,045                                 | 1,393,537          |
| Undesignated                               | 137,740            | —                     | —  | —   | —                                       | 137,740            |
| <b>Total Fund Balances</b>                 | <u>1,041,084</u>   | <u>323,882</u>        | <u>642,747</u>   | <u>886,481</u>  | <u>587,794</u>                          | <u>3,481,988</u>   |
| <b>Total Liabilities and Fund Balances</b> | <u>\$2,538,605</u> | <u>\$403,408</u>      | <u>\$642,864</u>   | <u>\$923,539</u>  | <u>\$670,606</u>                        | <u>\$5,179,022</u> |

The accompanying notes are an integral part of the financial statements.

**Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Assets  
June 30, 2007  
(Expressed in Thousands)**

|  |                    |                     |
|--|--------------------|---------------------|
| Total Fund Balances - Governmental Funds   |                    | \$ 3,481,988        |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                    |                     |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets (excluding Internal Service Funds) consist of:  |                    |                     |
| Land   | \$ 925,787         |                     |
| Construction in Progress   | 1,316,062          |                     |
| Infrastructure Assets  | 8,519,913          |                     |
| Buildings, Equipment, and Other Depreciable Assets   | 1,126,919          |                     |
| Accumulated Depreciation   | <u>(4,104,765)</u> |                     |
| Total Capital Assets   |                    | 7,783,916           |
| The Net Pension Asset is not recognized at the fund level.   |                    | 966,150             |
| Certain tax and other revenues are earned but not available and therefore are deferred in the funds.   |                    | 66,358              |
| Internal service funds are used by management to charge the costs of certain activities, such as building rental and information services, to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets. |                    | 122,973             |
| Bonds issued by the State have associated costs that are paid from current available financial resources in the funds. However, these costs are deferred on the statement of net assets.   |                    | 8,318               |
| Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities (excluding Internal Service Funds) consist of:   |                    |                     |
| General Obligation Bonds   | (744,790)          |                     |
| Revenue Bonds  | (1,742,647)        |                     |
| Capital Leases   | (331,778)          |                     |
| Compensated Absences   | (264,504)          |                     |
| Net Pension Obligations  | (65,847)           |                     |
| Accrued Interest Payable and Other Liabilities   | <u>(637,103)</u>   |                     |
| Total Long-Term Liabilities  |                    | <u>(3,786,669)</u>  |
| Net Assets of Governmental Activities  |                    | <u>\$ 8,643,034</u> |

The accompanying notes are an integral part of the financial statements.



**Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|   | <b>General</b>     | <b>Transportation</b> | <b>West Virginia<br/>Infrastructure<br/>and Jobs<br/>Development<br/>Council</b> | <b>Tobacco<br/>Settlement<br/>Finance<br/>Authority</b> | <b>Other<br/>Governmental<br/>Funds</b> | <b>Total</b>       |
|---|--------------------|-----------------------|--|---|---|--------------------|
| Revenues:                                       |                    |                       |  |   |   |                    |
| Taxes:  |                    |                       |  |   |   |                    |
| Personal Income                                 | \$1,370,566        | \$ —                  | \$ —   | \$ —  | \$ —                                    | \$1,370,566        |
| Consumer Sales                                  | 1,019,631          | —                     | —  | —   | —                                       | 1,019,631          |
| Severance                                       | 340,544            | —                     | —  | —   | —                                       | 340,544            |
| Corporate Net Income                            | 384,440            | —                     | —  | —   | —                                       | 384,440            |
| Business and Occupation                         | 180,527            | —                     | —  | —   | —                                       | 180,527            |
| Medicaid  | 162,692            | —                     | —  | —   | —                                       | 162,692            |
| Gasoline and Motor Carrier                      | —                  | 364,550               | —  | —   | —                                       | 364,550            |
| Automobile Privilege                            | —                  | 171,429               | —  | —   | —                                       | 171,429            |
| Other   | 385,267            | 3,943                 | —  | —   | 4,000                                   | 393,210            |
| Intergovernmental                               | 2,514,192          | 409,462               | —  | —   | 110,111                                 | 3,033,765          |
| Licenses, Permits, and Fees                     | 91,343             | 5,263                 | —  | —   | 119,898                                 | 216,504            |
| Motor Vehicle Registration                      | —                  | 92,422                | —  | —   | —                                       | 92,422             |
| Charges for Services                            | 115,791            | —                     | 2,024  | —   | 155                                     | 117,970            |
| Food Stamp Revenue                              | 273,227            | —                     | —  | —   | —                                       | 273,227            |
| Investment Earnings                             | 135,566            | 7,055                 | 11,786   | 1   | 30,549                                  | 184,957            |
| Other   | 96,749             | 35,982                | —  | —   | 3,386                                   | 136,117            |
| Total Revenues                                  | <u>7,070,535</u>   | <u>1,090,106</u>      | <u>13,810</u>  | <u>1</u>  | <u>268,099</u>                          | <u>8,442,551</u>   |
| Expenditures:                                   |                    |                       |  |   |   |                    |
| Current:  |                    |                       |  |   |   |                    |
| Legislative                                     | 23,410             | —                     | —  | —   | 2,979                                   | 26,389             |
| Judicial  | 90,829             | —                     | —  | —   | —                                       | 90,829             |
| Executive                                       | 118,550            | —                     | —  | —   | —                                       | 118,550            |
| Administration                                  | 103,894            | —                     | —  | 2,117   | 9                                       | 106,020            |
| Commerce  | 213,666            | —                     | 12,661   | —   | 2,243                                   | 228,570            |
| Environmental Protection                        | 5,048              | —                     | —  | —   | 109,434                                 | 114,482            |
| Employment Programs                             | —                  | —                     | —  | —   | 58,488                                  | 58,488             |
| Education                                       | 3,511,269          | —                     | —  | —   | 105,463                                 | 3,616,732          |
| Health and Human Resources                      | 3,251,392          | —                     | —  | —   | 11                                      | 3,251,403          |
| Military Affairs and Public Safety              | 349,002            | —                     | —  | —   | 4,443                                   | 353,445            |
| Revenue   | 49,477             | —                     | —  | —   | 26,780                                  | 76,257             |
| Transportation                                  | 6,874              | 512,661               | —  | —   | 746                                     | 520,281            |
| Senior Services                                 | 32,315             | —                     | —  | —   | —                                       | 32,315             |
| Regulatory Boards and Commissions               | 11,583             | —                     | —  | —   | 23,108                                  | 34,691             |
| Capital Outlay                                  | —                  | 457,319               | —  | —   | 44,913                                  | 502,232            |
| Debt Service:                                   |                    |                       |  |   |   |                    |
| Principal                                       | —                  | 18,150                | —  | —   | 116,314                                 | 134,464            |
| Interest  | —                  | 22,235                | —  | —   | 64,002                                  | 86,237             |
| Total Expenditures                              | <u>7,767,309</u>   | <u>1,010,365</u>      | <u>12,661</u>  | <u>2,117</u>  | <u>558,933</u>                          | <u>9,351,385</u>   |
| Excess of Revenues Over<br>(Under) Expenditures | <u>(696,774)</u>   | <u>79,741</u>         | <u>1,149</u>   | <u>(2,116)</u>  | <u>(290,834)</u>                        | <u>(908,834)</u>   |
| Other Financing Sources (Uses):                 |                    |                       |  |   |   |                    |
| Face Value of Long-Term Debt Issued             | —                  | —                     | —  | 911,142   | 438,751                                 | 1,349,893          |
| Premiums (Discounts) on Bonds Issued            | —                  | —                     | —  | (5,091)   | 10,217                                  | 5,126              |
| Capital Lease Acquisition                       | 190                | —                     | —  | —   | —                                       | 190                |
| Payments to Refunded Bond<br>Escrow Agent       | —                  | —                     | —  | —   | (242,616)                               | (242,616)          |
| Transfers In                                    | 480,543            | 3,541                 | 74,653   | —   | 190,478                                 | 749,215            |
| Transfers Out                                   | (151,208)          | (5,726)               | (4,387)  | (17,454)  | (43,867)                                | (222,642)          |
| Total Other Financing Sources (Uses)            | <u>329,525</u>     | <u>(2,185)</u>        | <u>70,266</u>  | <u>888,597</u>  | <u>352,963</u>                          | <u>1,639,166</u>   |
| Net Change in Fund Balance                      | (367,249)          | 77,556                | 71,415   | 886,481   | 62,129                                  | 730,332            |
| Fund Balances, Beginning of Year                | <u>1,408,333</u>   | <u>246,326</u>        | <u>571,332</u>   | <u>—</u>  | <u>525,665</u>                          | <u>2,751,656</u>   |
| Fund Balances, End of Year                      | <u>\$1,041,084</u> | <u>\$ 323,882</u>     | <u>\$642,747</u>   | <u>\$886,481</u>  | <u>\$ 587,794</u>                       | <u>\$3,481,988</u> |

The accompanying notes are an integral part of the financial statements.

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances -  
Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

Net Change in Fund Balances - Total Governmental Funds \$ 730,332

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

|  |                  |         |
|--|------------------|---------|
| Capital Outlay                                     | \$ 512,844       |         |
| Depreciation Expense                               | <u>(284,237)</u> |         |
| Excess of Capital Outlay Over Depreciation Expense |                  | 228,607 |

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (190)

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:

|  |             |
|--|-------------|
| Bonds issued, including a premium of \$10,217 and discounts of \$5,091 |             |
| Total Bond Proceeds  | (1,355,019) |

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. For the current year these amounts consist of:

|                                |               |         |
|--------------------------------|---------------|---------|
| Bond Principal Retirement      | 364,090       |         |
| Capital Lease Payments         | <u>13,798</u> |         |
| Total Long-Term Debt Repayment |               | 377,888 |

Internal service funds are used by management to charge the costs of certain activities, such as building and vehicle maintenance and leasing, data processing, and investment and management of State moneys, to individual funds. The net increase in net assets of the internal service funds is reported with governmental activities. 14,218

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Unearned revenues increased by this amount this year. 26,685

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

|  |              |                  |
|--|--------------|------------------|
| Accrued Interest   | 2,512        |                  |
| Decrease of Compensated Absences                           | 10,136       |                  |
| Increase of Accrued and Other Liabilities                  | (128,797)    |                  |
| Decrease of Net Pension Obligation                         | 1,156,140    |                  |
| Amortization of Bond Premiums/Discounts and Issuance Costs | <u>2,653</u> |                  |
| Total Change in Expenditures                               |              | <u>1,042,644</u> |

Change in Net Assets of Governmental Activities \$ 1,065,165

The accompanying notes are an integral part of the financial statements.

# *PROPRIETARY FUND FINANCIAL STATEMENTS*

## ***Major Funds***

**West Virginia Lottery** The West Virginia Lottery's responsibilities include the distribution and sale of lottery tickets and the awarding of prizes. The West Virginia Lottery accounts for lottery ticket revenues, administrative and operating expenses, and distribution of net revenue to the General Fund.

**Water Pollution Control Revolving Fund (Water Pollution)** Low interest loans are made to communities that need to upgrade an existing waste water system, establishing a new utility or cleaning up the State's water supply. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

**Workers' Compensation Fund** On December 31, 2005, the Workers' Compensation Commission (WCC) ceased to exist as a separate State entity. The WCC's regulatory powers transferred to the Offices of the Insurance Commissioner along with the residual assets and liabilities of the former WCC. Disbursements from the State's workers' compensation fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, for any claim with a date of injury on or before June 30, 2005.

**Unemployment Compensation** The Fund is administered by the Bureau of Employment Programs doing business as WORKFORCE West Virginia. The Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers under provisions of the Federal Unemployment Tax Act.

**Public Employees' Insurance Agency** The Agency, a public entity risk pool, is responsible for providing health and life insurance to current and retired state and county employees. The Agency, empowered to set the premium rates charged to its participants, utilizes a third-party administrator to process claims and make payments to doctors and hospitals on a cost reimbursement basis.

**Board of Risk and Insurance Management** The Board, a public entity risk pool, is responsible for the self-insurance of all State buildings, automobiles, and legal and civil actions, as well as insuring various county and local governments and charitable organizations. The Board is funded from the premiums assessed to the organizations it insures.

Nonmajor proprietary funds are presented beginning on page 194.

# West Virginia

## Statement of Net Assets Proprietary Funds June 30, 2007 (Expressed in Thousands)

|   | Business-type Activities - Enterprise Funds |  |                                  |                              |
|---|---|--|----------------------------------|------------------------------|
|   | West<br>Virginia<br>Lottery                 | Water<br>Pollution<br>Control<br>Revolving<br>Fund | Workers'<br>Compensation<br>Fund | Unemployment<br>Compensation |
| Assets:   |   |  |                                  |                              |
| Current Assets:                                 |   |  |                                  |                              |
| Cash and Cash Equivalents                       | \$204,122                                   | \$ 92,743  | \$ 975,123                       | \$257,121                    |
| Receivables, Net                                | 33,094                                      | 20,581   | 14,414                           | 34,619                       |
| Due from Other Governments                      | —   | 60   | —                                | 1,295                        |
| Due from Other Funds                            | 1   | 28   | —                                | 247                          |
| Due from Component Units                        | —   | —  | —                                | 120                          |
| Inventories                                     | 433   | —  | —                                | —                            |
| Other Assets                                    | 1,163                                       | —  | —                                | —                            |
| Restricted Assets:                              |   |  |                                  |                              |
| Cash and Cash Equivalents                       | —   | —  | —                                | —                            |
| Investments                                     | 23  | —  | —                                | —                            |
| Receivables, Net                                | —   | —  | —                                | —                            |
| Other Restricted Assets                         | —   | —  | —                                | —                            |
| Total Current Assets                            | <u>238,836</u>                              | <u>113,412</u>                                     | <u>989,537</u>                   | <u>293,402</u>               |
| Noncurrent Assets:                              |   |  |                                  |                              |
| Cash and Cash Equivalents                       | —   | —  | —                                | —                            |
| Investments                                     | —   | —  | —                                | —                            |
| Receivables, Net                                | —   | 366,563  | 185,000                          | —                            |
| Restricted Assets:                              |   |  |                                  |                              |
| Cash and Cash Equivalents                       | 30,367                                      | —  | —                                | —                            |
| Investments                                     | 281   | —  | —                                | —                            |
| Capital Assets, Net                             | <u>1,451</u>                                | —  | —                                | —                            |
| Total Noncurrent Assets                         | <u>32,099</u>                               | <u>366,563</u>                                     | <u>185,000</u>                   | —                            |
| Total Assets                                    | <u>270,935</u>                              | <u>479,975</u>                                     | <u>1,174,537</u>                 | <u>293,402</u>               |
| Liabilities:                                    |   |  |                                  |                              |
| Current Liabilities:                            |   |  |                                  |                              |
| Accounts Payable                                | 14,859                                      | 14   | —                                | —                            |
| Accrued Tuition Contract Benefits               | —   | —  | —                                | —                            |
| Accrued and Other Liabilities                   | 31,159                                      | —  | 2,834                            | 1,133                        |
| Deferred Revenue                                | —   | —  | —                                | —                            |
| Due to Other Governments                        | —   | —  | —                                | 6,604                        |
| Due to Other Funds                              | 180,338                                     | 17   | 524                              | —                            |
| Due to Component Units                          | 25  | 20   | 3                                | —                            |
| Insurance and Compensation Benefits Obligations | —   | —  | 272,494                          | 14,762                       |
| Liabilities Payable from Restricted Assets      | 159   | —  | —                                | —                            |
| Capital Leases and Other Debt                   | —   | —  | —                                | —                            |
| Compensated Absences                            | —   | —  | —                                | —                            |
| Total Current Liabilities                       | <u>226,540</u>                              | <u>51</u>  | <u>275,855</u>                   | <u>22,499</u>                |
| Noncurrent Liabilities:                         |   |  |                                  |                              |
| Accrued Tuition Contract Benefits               | —   | —  | —                                | —                            |
| Insurance and Compensation Benefits Obligations | —   | —  | 2,709,000                        | —                            |
| Liabilities Payable from Restricted Assets      | 139   | —  | —                                | —                            |
| Capital Leases and Other Debt                   | —   | —  | —                                | —                            |
| Compensated Absences                            | <u>767</u>                                  | <u>366</u>   | —                                | —                            |
| Total Noncurrent Liabilities                    | <u>906</u>                                  | <u>366</u>   | <u>2,709,000</u>                 | —                            |
| Total Liabilities                               | <u>227,446</u>                              | <u>417</u>   | <u>2,984,855</u>                 | <u>22,499</u>                |
| Net Assets:                                     |   |  |                                  |                              |
| Invested in Capital Assets, Net of Related Debt | 1,451                                       | —  | —                                | —                            |
| Restricted for:                                 |   |  |                                  |                              |
| Capital Projects                                | 30,367                                      | —  | —                                | —                            |
| Program Administration                          | —   | —  | —                                | —                            |
| Lending Activities                              | —   | 479,558  | —                                | —                            |
| Insurance Activities                            | —   | —  | 146,931                          | 270,903                      |
| Unrestricted (Deficit)                          | <u>11,671</u>                               | —  | <u>(1,957,249)</u>               | —                            |
| Total Net Assets (Deficit)                      | <u>\$ 43,489</u>                            | <u>\$479,558</u>                                   | <u>\$(1,810,318)</u>             | <u>\$270,903</u>             |

The accompanying notes are an integral part of the financial statements.



| Public<br>Employees'<br>Insurance<br>Agency | Board of<br>Risk and<br>Insurance<br>Management | Other<br>Enterprise<br>Funds | Total               | Governmental<br>Activities -<br>Internal<br>Service<br>Funds |
|---|---|------------------------------|---------------------|--|
| \$159,916                                   | \$ 23,746                                       | \$ 30,988                    | \$ 1,743,759        | \$ 13,615  |
| 15,839                                      | 1,357   | 3,345                        | 123,249             | 4,506  |
| —   | —   | —                            | 1,355               | —  |
| 6,846                                       | 340   | 24                           | 7,486               | 7,423  |
| 426   | 323   | —                            | 869                 | 235  |
| —   | —   | 29                           | 462                 | 533  |
| —   | —   | 13                           | 1,176               | 306  |
| —   | 9,337   | —                            | 9,337               | 463  |
| —   | —   | —                            | 23                  | —  |
| —   | 372   | —                            | 372                 | —  |
| —   | 115,836   | —                            | 115,836             | —  |
| <u>183,027</u>                              | <u>151,311</u>                                  | <u>34,399</u>                | <u>2,003,924</u>    | <u>27,081</u>  |
| 3,943                                       | —   | —                            | 3,943               | —  |
| 169,996                                     | 93,646  | 104,933                      | 368,575             | —  |
| —   | —   | 49,681                       | 601,244             | —  |
| —   | —   | —                            | 30,367              | 42,860   |
| —   | 23,481  | —                            | 23,762              | —  |
| 568   | —   | 2,030                        | 4,049               | 81,395   |
| <u>174,507</u>                              | <u>117,127</u>                                  | <u>156,644</u>               | <u>1,031,940</u>    | <u>124,255</u>   |
| <u>357,534</u>                              | <u>268,438</u>                                  | <u>191,043</u>               | <u>3,035,864</u>    | <u>151,336</u>   |
| 7,728                                       | 1,970   | 2,319                        | 26,890              | 11,270   |
| —   | —   | 9,372                        | 9,372               | —  |
| 986   | 483   | 96                           | 36,691              | 292  |
| 3,193                                       | 8,659   | —                            | 11,852              | —  |
| 272   | —   | —                            | 6,876               | 94   |
| 113,690                                     | 15  | 34                           | 294,618             | 222  |
| 208   | —   | —                            | 256                 | 17   |
| 52,999                                      | 50,851  | 280                          | 391,386             | —  |
| —   | —   | —                            | 159                 | —  |
| —   | —   | —                            | —                   | 4,036  |
| —   | —   | 36                           | 36                  | —  |
| <u>179,076</u>                              | <u>61,978</u>                                   | <u>12,137</u>                | <u>778,136</u>      | <u>15,931</u>  |
| —   | —   | 106,487                      | 106,487             | —  |
| 3,943                                       | 108,713   | —                            | 2,821,656           | —  |
| —   | —   | —                            | 139                 | —  |
| —   | —   | —                            | —                   | 7,999  |
| 441   | 200   | 1,307                        | 3,081               | 4,433  |
| <u>4,384</u>                                | <u>108,913</u>                                  | <u>107,794</u>               | <u>2,931,363</u>    | <u>12,432</u>  |
| <u>183,460</u>                              | <u>170,891</u>                                  | <u>119,931</u>               | <u>3,709,499</u>    | <u>28,363</u>  |
| 568   | —   | 2,030                        | 4,049               | 69,360   |
| —   | —   | —                            | 30,367              | 42,860   |
| —   | —   | 7,137                        | 7,137               | —  |
| —   | —   | 60,960                       | 540,518             | —  |
| —   | 31,117  | —                            | 448,951             | —  |
| <u>173,506</u>                              | <u>66,430</u>                                   | <u>985</u>                   | <u>(1,704,657)</u>  | <u>10,753</u>  |
| <u>\$174,074</u>                            | <u>\$ 97,547</u>                                | <u>\$ 71,112</u>             | <u>\$ (673,635)</u> | <u>\$122,973</u>   |

## West Virginia

### Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds For the Fiscal Year Ended June 30, 2007 (Expressed in Thousands)

|   | Business-type Activities - Enterprise Funds |  |                                  |                              |
|---|---|--|----------------------------------|------------------------------|
|   | West<br>Virginia<br>Lottery                 | Water<br>Pollution<br>Control<br>Revolving<br>Fund | Workers'<br>Compensation<br>Fund | Unemployment<br>Compensation |
| Operating Revenues:                                 |   |  |                                  |                              |
| Charges for Services and Sales                      | \$ —  | \$ —   | \$ —                             | \$147,029                    |
| Lottery Games                                       | 1,562,259                                   | —  | —                                | —                            |
| Insurance Premiums                                  | —   | —  | 235,664                          | —                            |
| Tuition Contracts                                   | —   | —  | —                                | —                            |
| Investment Earnings                                 | —   | 2,149  | —                                | —                            |
| Licenses, Permits, and Fees                         | —   | 1,595  | —                                | —                            |
| Other   | 10,397                                      | —  | 15,552                           | 5,991                        |
| Total Operating Revenues                            | 1,572,656                                   | 3,744  | 251,216                          | 153,020                      |
| Operating Expenses:                                 |   |  |                                  |                              |
| Cost of Sales and Services                          | 744,070                                     | —  | —                                | —                            |
| Lottery Prizes                                      | 115,792                                     | —  | —                                | —                            |
| Insurance Claims                                    | —   | —  | 50,566                           | —                            |
| Tuition Contract Benefits and Expenses              | —   | —  | —                                | —                            |
| General and Administration                          | 13,801                                      | 1,630  | 23,500                           | —                            |
| Depreciation and Amortization                       | 569   | —  | —                                | —                            |
| Other   | 14,812                                      | —  | —                                | 153,663                      |
| Total Operating Expenses                            | 889,044                                     | 1,630  | 74,066                           | 153,663                      |
| Operating Income (Loss)                             | 683,612                                     | 2,114  | 177,150                          | (643)                        |
| Nonoperating Revenues (Expenses):                   |   |  |                                  |                              |
| Gain on Sale of Equipment                           | —   | —  | —                                | —                            |
| Interest and Other Investment Income                | 7,591                                       | 4,481  | 109,037                          | 11,511                       |
| Interest Expense                                    | (35)  | —  | —                                | —                            |
| Other Nonoperating Revenues                         | —   | —  | —                                | —                            |
| Other Nonoperating Expenses                         | (192,286)                                   | —  | —                                | —                            |
| BrickStreet Transactions (See Note 14)              | —   | —  | (7,484)                          | —                            |
| Total Nonoperating Revenues (Expenses), Net         | (184,730)                                   | 4,481  | 101,553                          | 11,511                       |
| Income (Loss) Before Contributions<br>and Transfers | 498,882                                     | 6,595  | 278,703                          | 10,868                       |
| Contributions and Transfers:                        |   |  |                                  |                              |
| Capital Grants and Contributions                    | —   | 12,627   | —                                | —                            |
| Transfers In  | —   | 2,730  | 12,736                           | —                            |
| Transfers Out                                       | (475,643)                                   | —  | —                                | (2,000)                      |
| Total Contributions and Transfers                   | (475,643)                                   | 15,357   | 12,736                           | (2,000)                      |
| Change in Net Assets                                | 23,239                                      | 21,952   | 291,439                          | 8,868                        |
| Net Assets (Deficit), Beginning of Year             | 20,250                                      | 457,606  | (2,101,757)                      | 262,035                      |
| Net Assets (Deficit), End of Year                   | \$ 43,489                                   | \$479,558  | \$(1,810,318)                    | \$270,903                    |

The accompanying notes are an integral part of the financial statements.

| Public<br>Employees'<br>Insurance<br><u>Agency</u> | Board of<br>Risk and<br>Insurance<br><u>Management</u> | Other<br>Enterprise<br><u>Funds</u> | <u>Total</u>        | Governmental<br>Activities -<br>Internal<br>Service<br><u>Funds</u> |
|--|--|-------------------------------------|---------------------|---|
| \$ —   | \$ —   | \$ 74,091                           | \$ 221,120          | \$ 71,423   |
| —  | —  | —                                   | 1,562,259           | —   |
| 407,076  | 74,097   | —                                   | 716,837             | —   |
| —  | —  | 150                                 | 150                 | —   |
| —  | —  | —                                   | 2,149               | —   |
| —  | —  | 3,312                               | 4,907               | —   |
| <u>4,450</u>                                       | <u>—</u>   | <u>1,614</u>                        | <u>38,004</u>       | <u>—</u>  |
| <u>411,526</u>                                     | <u>74,097</u>  | <u>79,167</u>                       | <u>2,545,426</u>    | <u>71,423</u>   |
| —  | —  | 54,388                              | 798,458             | 59,996  |
| —  | —  | —                                   | 115,792             | —   |
| 359,512  | 35,136   | 1,469                               | 446,683             | —   |
| —  | —  | 13,855                              | 13,855              | —   |
| 12,724   | 4,305  | 7,512                               | 63,472              | 7,079   |
| 19   | —  | 143                                 | 731                 | 7,813   |
| <u>7,488</u>                                       | <u>—</u>   | <u>—</u>                            | <u>175,963</u>      | <u>—</u>  |
| <u>379,743</u>                                     | <u>39,441</u>  | <u>77,367</u>                       | <u>1,614,954</u>    | <u>74,888</u>   |
| 31,783   | 34,656   | 1,800                               | 930,472             | (3,465)   |
| —  | —  | —                                   | —                   | 699   |
| 22,126   | 18,047   | 16,968                              | 189,761             | 932   |
| —  | —  | —                                   | (35)                | (391)   |
| 3,086  | —  | —                                   | 3,086               | 110   |
| —  | —  | —                                   | (192,286)           | (300)   |
| <u>—</u>   | <u>—</u>   | <u>—</u>                            | <u>(7,484)</u>      | <u>—</u>  |
| <u>25,212</u>                                      | <u>18,047</u>  | <u>16,968</u>                       | <u>(6,958)</u>      | <u>1,050</u>  |
| 56,995   | 52,703   | 18,768                              | 923,514             | (2,415)   |
| —  | —  | —                                   | 12,627              | 4,001   |
| 6,700  | —  | 9,975                               | 32,141              | 14,150  |
| <u>(80,487)</u>                                    | <u>—</u>   | <u>(13,216)</u>                     | <u>(571,346)</u>    | <u>(1,518)</u>  |
| <u>(73,787)</u>                                    | <u>—</u>   | <u>(3,241)</u>                      | <u>(526,578)</u>    | <u>16,633</u>   |
| (16,792)   | 52,703   | 15,527                              | 396,936             | 14,218  |
| <u>190,866</u>                                     | <u>44,844</u>  | <u>55,585</u>                       | <u>(1,070,571)</u>  | <u>108,755</u>  |
| <u>\$174,074</u>                                   | <u>\$97,547</u>  | <u>\$ 71,112</u>                    | <u>\$ (673,635)</u> | <u>\$122,973</u>  |

**Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|  | Business-type Activities - Enterprise Funds |  |                                  |                              |
|--|---|--|----------------------------------|------------------------------|
|  | West<br>Virginia<br>Lottery                 | Water<br>Pollution<br>Control<br>Revolving<br>Fund | Workers'<br>Compensation<br>Fund | Unemployment<br>Compensation |
| Cash Flows from Operating Activities:                              |   |  |                                  |                              |
| Receipts from Customers  | \$1,564,351                                 | \$ 22,990  | \$ 257,668                       | \$ 143,822                   |
| Payments to Suppliers  | (18,392)                                    | —  | (21,433)                         | —                            |
| Payments to Employees  | (5,922)                                     | (1,209)  | (1,902)                          | —                            |
| Payments to Beneficiaries  | —   | —  | —                                | —                            |
| Payments for Loans Originated                                      | —   | (28,964)   | —                                | —                            |
| Payments to Claimants  | —   | —  | (327,024)                        | (152,611)                    |
| Other Operating Cash Receipts                                      | —   | —  | —                                | 11,476                       |
| Other Operating Cash Payments                                      | <u>(866,189)</u>                            | <u>(415)</u>                                       | <u>—</u>                         | <u>—</u>                     |
| Net Cash Provided by (Used for)<br>Operating Activities            | <u>673,848</u>                              | <u>(7,598)</u>                                     | <u>(92,691)</u>                  | <u>2,687</u>                 |
| Cash Flows from Noncapital Financing Activities:                   |   |  |                                  |                              |
| Repayment of Operating Debt  | (35)  | —  | —                                | —                            |
| Transfers In   | —   | 2,730  | 12,736                           | —                            |
| Transfers Out  | (606,649)                                   | —  | —                                | (2,000)                      |
| Distributions or Subsidies to<br>Other Organizations               | (37,479)                                    | —  | (7,484)                          | —                            |
| Other Nonoperating Receipts (Payments)                             | —   | —  | —                                | —                            |
| Entitlements and Grants  | <u>—</u>                                    | <u>12,626</u>                                      | <u>—</u>                         | <u>—</u>                     |
| Net Cash Provided by (Used for) Noncapital<br>Financing Activities | <u>(644,163)</u>                            | <u>15,356</u>                                      | <u>5,252</u>                     | <u>(2,000)</u>               |
| Cash Flows from Capital and Related<br>Financing Activities:       |   |  |                                  |                              |
| Proceeds from Sale of Capital Bonds<br>and Other Debts             | —   | —  | —                                | —                            |
| Repayment of Capital Debt  | —   | —  | —                                | —                            |
| Interest Paid on Capital Debt                                      | —   | —  | —                                | —                            |
| Acquisition and Construction of<br>Capital Assets                  | <u>(871)</u>                                | <u>—</u>   | <u>—</u>                         | <u>—</u>                     |
| Net Cash Used for Capital and Related<br>Financing Activities      | <u>(871)</u>                                | <u>—</u>   | <u>—</u>                         | <u>—</u>                     |
| Cash Flows from Investing Activities:                              |   |  |                                  |                              |
| Purchase of Investments  | —   | —  | —                                | —                            |
| Proceeds from Sale of Investments                                  | 387   | —  | —                                | —                            |
| Investment Earnings  | 7,569                                       | 4,480  | 104,645                          | 11,511                       |
| BrickStreet Notes Receivable Payment                               | <u>—</u>                                    | <u>—</u>   | <u>19,392</u>                    | <u>—</u>                     |
| Net Cash Provided by Investing Activities                          | <u>7,956</u>                                | <u>4,480</u>                                       | <u>124,037</u>                   | <u>11,511</u>                |
| Net Increase (Decrease) in Cash<br>and Cash Equivalents            | 36,770                                      | 12,238   | 36,598                           | 12,198                       |
| Cash and Cash Equivalents,<br>Beginning of Year                    | <u>197,719</u>                              | <u>80,505</u>                                      | <u>938,525</u>                   | <u>244,923</u>               |
| Cash and Cash Equivalents, End of Year                             | <u>\$ 234,489</u>                           | <u>\$ 92,743</u>                                   | <u>\$ 975,123</u>                | <u>\$ 257,121</u>            |

The accompanying notes are an integral part of the financial statements.



| Public<br>Employees'<br>Insurance<br>Agency | Board of<br>Risk and<br>Insurance<br>Management | Other<br>Enterprise<br>Funds | Total              | Governmental<br>Activities -<br>Internal<br>Service<br>Funds |
|---|---|------------------------------|--------------------|--|
| \$ 413,404                                  | \$ 70,554                                       | \$ 80,967                    | \$2,553,756        | \$ 70,448  |
| (13,529)                                    | (3,192)   | (58,494)                     | (115,040)          | (45,811)   |
| (1,473)                                     | (1,246)   | (4,975)                      | (16,727)           | (19,482)   |
| (380,584)                                   | (49,645)  | (6,315)                      | (436,544)          | —  |
| —   | —   | (11,980)                     | (40,944)           | —  |
| —   | —   | —                            | (479,635)          | —  |
| 13,771                                      | —   | 1,210                        | 26,457             | —  |
| <u>—</u>                                    | <u>(31,528)</u>                                 | <u>—</u>                     | <u>(898,132)</u>   | <u>—</u>   |
| <u>31,589</u>                               | <u>(15,057)</u>                                 | <u>413</u>                   | <u>593,191</u>     | <u>5,155</u>   |
| —   | —   | —                            | (35)               | —  |
| 5,295                                       | —   | 9,974                        | 30,735             | 14,150   |
| —   | —   | (13,216)                     | (621,865)          | (1,518)  |
| —   | —   | —                            | (44,963)           | —  |
| 11,130                                      | 25  | —                            | 11,155             | (300)  |
| <u>—</u>                                    | <u>—</u>  | <u>—</u>                     | <u>12,626</u>      | <u>—</u>   |
| <u>16,425</u>                               | <u>25</u>                                       | <u>(3,242)</u>               | <u>(612,347)</u>   | <u>12,332</u>  |
| —   | —   | —                            | —                  | 7,370  |
| —   | —   | —                            | —                  | (3,949)  |
| —   | —   | —                            | —                  | (396)  |
| <u>(378)</u>                                | <u>—</u>  | <u>(282)</u>                 | <u>(1,531)</u>     | <u>(14,451)</u>  |
| <u>(378)</u>                                | <u>—</u>  | <u>(282)</u>                 | <u>(1,531)</u>     | <u>(11,426)</u>  |
| (15,366)                                    | (6,496)   | (810)                        | (22,672)           | (963)  |
| —   | 4,705   | 4,600                        | 9,692              | 963  |
| 22,126                                      | 8,150   | 1,841                        | 160,322            | 928  |
| <u>—</u>                                    | <u>—</u>  | <u>—</u>                     | <u>19,392</u>      | <u>—</u>   |
| <u>6,760</u>                                | <u>6,359</u>                                    | <u>5,631</u>                 | <u>166,734</u>     | <u>928</u>   |
| 54,396                                      | (8,673)   | 2,520                        | 146,047            | 6,989  |
| <u>109,463</u>                              | <u>41,756</u>                                   | <u>28,468</u>                | <u>1,641,359</u>   | <u>49,949</u>  |
| <u>\$ 163,859</u>                           | <u>\$ 33,083</u>                                | <u>\$ 30,988</u>             | <u>\$1,787,406</u> | <u>\$ 56,938</u>   |

(Continued)

**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2007**  
(Expressed in Thousands)  
(Continued)

|  | Business-type Activities - Enterprise Funds |   |   |                                      |
|--|---|---|---|--------------------------------------|
|  | <u>West<br/>Virginia<br/>Lottery</u>        | <u>Water<br/>Pollution<br/>Control<br/>Revolving<br/>Fund</u> | <u>Workers'<br/>Compensation<br/>Fund</u> | <u>Unemployment<br/>Compensation</u> |
| Reconciliation of Operating Income (Loss) to Net Cash<br>Provided by (Used for) Operating Activities:        |   |   |   |                                      |
| Operating Income (Loss)  | \$683,612                                   | \$ 2,114  | \$ 177,150                                | \$ (643)                             |
| Adjustments to Reconcile Operating Income (Loss) to<br>Net Cash Provided by (Used for) Operating Activities: |   |   |   |                                      |
| Depreciation and Amortization  | 569   | —   | —   | —                                    |
| Changes in Assets and Liabilities:   |   |   |   |                                      |
| Receivables  | (8,305)                                     | (9,722)   | 6,452                                     | 592                                  |
| Inventories  | 155   | —   | —   | —                                    |
| Other Assets   | (184)                                       | —   | —   | —                                    |
| Accounts Payable and Accrued Liabilities   | (3,692)                                     | 9   | (277,700)                                 | (743)                                |
| Accrued Tuition Contract Benefits and Expenses   | —   | —   | —   | —                                    |
| Deferred Revenue   | —   | —   | —   | —                                    |
| Escrow Deposits  | —   | —   | —   | —                                    |
| Due to/from Other Funds  | —   | 1   | —   | 3,481                                |
| Unpaid Claims Liabilities  | —   | —   | —   | —                                    |
| Other Liabilities  | 1,693                                       | —   | 1,407                                     | —                                    |
| Compensated Absences   | —   | —   | —   | —                                    |
| Net Cash Provided by (Used for) Operating Activities   | <u>\$673,848</u>                            | <u>\$(7,598)</u>  | <u>\$ (92,691)</u>                        | <u>\$2,687</u>                       |
| Schedule of Noncash Capital and Financing Activities:  |   |   |   |                                      |
| Distribution of Capital Assets   | \$ —  | \$ —  | \$ —                                      | \$ —                                 |
| Incurred Capital Lease   | —   | —   | —   | —                                    |
| Unrealized Gain on Investments   | —   | —   | —   | —                                    |

The accompanying notes are an integral part of the financial statements.

| <u>Public<br/>Employees'<br/>Insurance<br/>Agency</u> | <u>Board of<br/>Risk and<br/>Insurance<br/>Management</u> | <u>Other<br/>Enterprise<br/>Funds</u> | <u>Total</u>      | <u>Governmental<br/>Activities -<br/>Internal<br/>Service<br/>Funds</u> |
|---|---|---------------------------------------|-------------------|---|
| \$31,783  | \$ 34,656   | \$ 1,800                              | \$ 930,472        | \$(3,465)   |
| 19  | —   | 143                                   | 731               | 7,813   |
| 2,355   | (1,308)   | (8,970)                               | (18,906)          | (977)   |
| —   | —   | 8                                     | 163               | (186)   |
| —   | —   | —                                     | (184)             | (157)   |
| (2,244)   | —   | 26                                    | (284,344)         | 1,402   |
| —   | —   | 7,539                                 | 7,539             | —   |
| (3,408)   | (2,233)   | —                                     | (5,641)           | —   |
| —   | (31,531)  | —                                     | (31,531)          | —   |
| 2,825   | —   | —                                     | 6,307             | —   |
| —   | (14,508)  | —                                     | (14,508)          | —   |
| 259   | (133)   | (140)                                 | 3,086             | 725   |
| —   | —   | 7                                     | 7                 | —   |
| <u>\$31,589</u>                                       | <u>\$(15,057)</u>   | <u>\$ 413</u>                         | <u>\$ 593,191</u> | <u>\$ 5,155</u>   |
| \$ —  | \$ —  | \$ —                                  | \$ —              | \$ 4,001  |
| —   | —   | —                                     | —                 | 13  |
| —   | 9,872   | 15,096                                | 24,968            | —   |

# *FIDUCIARY FUND*

## *FINANCIAL STATEMENTS*

***Other Postemployment Trust Fund*** This fund type is used to report a trust arrangement and is accounted for in essentially the same manner as proprietary funds.

**The West Virginia Retiree Health Benefit Trust Fund** The West Virginia Retiree Health Benefit Trust Fund (RHBT), an irrevocable trust, was established under West Virginia Code 5-16D and is administered by the West Virginia Public Employees Insurance Agency (PEIA) and the PEIA Finance Board. The RHBT is a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. It provides the following basic retiree benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, dental, and prescription drug coverage for retired employees of the State of West Virginia and various non-State agencies and their dependents. All premium rates for plan members and employers are established based upon actuarially determined projected coverage costs as reviewed and approved by the Finance Board of PEIA.

***Private Purpose Trust Fund*** This fund type is used to report a trust arrangement under which principal and income benefit individuals.

**SMART 529** The West Virginia College Savings Program (the Program) operates under the West Virginia State Code Chapter 18, Article 30, and is administered by the Office of the State Treasurer under the direction of the Program's Board. All funds paid into or invested through the Program will be available for use at any two-year or four-year college or university in the country, with refund and transfer options available. Since the Program is an Internal Revenue Service Section 529 Qualified State Tuition Program, earnings on the funds are federally tax deferred until used for college.

The individual Pension Trust, Investment Trust, and Agency Fund descriptions and financial statements begin on page 199.



**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2007**  
(Expressed in Thousands)

|   | <b>Pension<br/>Trust<br/>Funds</b> | <b>Retiree<br/>Health<br/>Benefit<br/>Trust</b> | <b>Investment<br/>Trust<br/>Funds</b> | <b>SMART<br/>529</b> | <b>Agency<br/>Funds</b> |
|---|------------------------------------|---|---------------------------------------|----------------------|-------------------------|
| Assets:   |                                    |   |                                       |                      |                         |
| Cash and Cash Equivalents   | \$ 3,282                           | \$ 6,248  | \$245,807                             | \$ —                 | \$60,310                |
| Investments:  |                                    |   |                                       |                      |                         |
| Equity Pooled Investments   | 8,677,662                          | —   | —                                     | —                    | —                       |
| Mutual Funds  | 894,443                            | —   | —                                     | 1,065,222            | —                       |
| Receivables, Net:   |                                    |   |                                       |                      |                         |
| Contributions   | 35,278                             | 4,385   | —                                     | 12,097               | —                       |
| Participant Loans   | 8,688                              | —   | —                                     | —                    | —                       |
| Accrued Interest  | —                                  | —   | —                                     | —                    | 102                     |
| Accounts  | —                                  | 4,464   | —                                     | —                    | 2,500                   |
| Due from Other Funds  | 63                                 | 4,497   | —                                     | —                    | —                       |
| Due from Component Units  | <u>153</u>                         | <u>—</u>  | <u>—</u>                              | <u>—</u>             | <u>—</u>                |
| Total Assets  | <u>9,619,569</u>                   | <u>19,594</u>                                   | <u>245,807</u>                        | <u>1,077,319</u>     | <u>\$62,912</u>         |
| Liabilities:  |                                    |   |                                       |                      |                         |
| Accounts Payable  | —                                  | —   | —                                     | 10,811               | \$ 1,193                |
| Accrued and Other Liabilities   | 905                                | 27  | —                                     | 806                  | —                       |
| Due to Other Governments  | —                                  | —   | —                                     | —                    | 9,339                   |
| Due to Other Funds  | 60                                 | —   | —                                     | —                    | —                       |
| Insurance Claims Payable  | —                                  | 16,400  | —                                     | —                    | —                       |
| Agency Liabilities  | <u>—</u>                           | <u>—</u>  | <u>—</u>                              | <u>—</u>             | <u>52,380</u>           |
| Total Liabilities   | <u>965</u>                         | <u>16,427</u>                                   | <u>—</u>                              | <u>11,617</u>        | <u>\$62,912</u>         |
| Net Assets:   |                                    |   |                                       |                      |                         |
| Held in Trust for:  |                                    |   |                                       |                      |                         |
| Pension Benefits, Other Postemployment<br>Benefits, External Investment Pool<br>Participants, Individuals, and<br>Organizations | <u>9,618,604</u>                   | <u>3,167</u>                                    | <u>245,807</u>                        | <u>1,065,702</u>     |                         |
| Total Net Assets  | <u>\$9,618,604</u>                 | <u>\$ 3,167</u>                                 | <u>\$245,807</u>                      | <u>\$1,065,702</u>   |                         |

The accompanying notes are an integral part of the financial statements.

**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2007**  
**(Expressed in Thousands)**

|   | <b>Pension<br/>Trust<br/>Funds</b> | <b>Retiree<br/>Health<br/>Benefit<br/>Trust</b> | <b>Investment<br/>Trust<br/>Funds</b> | <b>SMART<br/>529</b> |
|---|------------------------------------|---|---------------------------------------|----------------------|
| Additions:                              |                                    |   |                                       |                      |
| Contributions:                          |                                    |   |                                       |                      |
| Members                                 | \$ 139,536                         | \$ 63,591                                       | \$ —                                  | \$ —                 |
| Employer                                | 1,675,373                          | 125,146   | —                                     | —                    |
| Account Holder                          | —                                  | —   | —                                     | 200,110              |
| Deposits, Pool Participants             | —                                  | —   | <u>617,359</u>                        | —                    |
| Total Contributions                     | <u>1,814,909</u>                   | <u>188,737</u>                                  | <u>617,359</u>                        | <u>200,110</u>       |
| Investment Income:                      |                                    |   |                                       |                      |
| Net Appreciation in                     |                                    |   |                                       |                      |
| Fair Value of Investments               | 1,214,737                          | 75  | 12,178                                | 105,264              |
| Interest                                | 60,339                             | —   | —                                     | 56,291               |
| Investment Expense                      | <u>(55,968)</u>                    | <u>—</u>  | <u>—</u>                              | <u>(4,973)</u>       |
| Net Investment Income                   | <u>1,219,108</u>                   | <u>75</u>                                       | <u>12,178</u>                         | <u>156,582</u>       |
| Other                                   | <u>10,220</u>                      | <u>19,370</u>                                   | <u>—</u>                              | <u>—</u>             |
| Total Additions                         | <u>3,044,237</u>                   | <u>208,182</u>                                  | <u>629,537</u>                        | <u>356,692</u>       |
| Deductions:                             |                                    |   |                                       |                      |
| Benefits Expense                        | 655,036                            | 196,271   | —                                     | —                    |
| Payments in Accordance with             |                                    |   |                                       |                      |
| Trust Agreements                        | —                                  | —   | —                                     | 52,172               |
| Refunds of Contributions                | 31,508                             | —   | —                                     | —                    |
| Withdrawals                             | —                                  | —   | 598,266                               | —                    |
| Administrative Expenses                 | <u>9,407</u>                       | <u>8,744</u>                                    | <u>—</u>                              | <u>3,044</u>         |
| Total Deductions                        | <u>695,951</u>                     | <u>205,015</u>                                  | <u>598,266</u>                        | <u>55,216</u>        |
| Change in Net Assets Held in Trust for: |                                    |   |                                       |                      |
| Pension Benefits                        | 2,348,286                          | —   | —                                     | —                    |
| Other Postemployment Benefits           | —                                  | 3,167   | —                                     | —                    |
| External Investment Pool Participants   | —                                  | —   | 31,271                                | —                    |
| Individuals and Organizations           | —                                  | —   | —                                     | 301,476              |
| Net Assets, Beginning of Year           | <u>7,270,318</u>                   | <u>—</u>  | <u>214,536</u>                        | <u>764,226</u>       |
| Net Assets, End of Year                 | <u>\$9,618,604</u>                 | <u>\$ 3,167</u>                                 | <u>\$245,807</u>                      | <u>\$1,065,702</u>   |

The accompanying notes are an integral part of the financial statements.



# *DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS*

## *Major Component Units*

**Economic Development Authority** The Authority, responsible for developing and advancing the business prosperity and economic welfare of the State, is authorized to make loans and enter into direct financing and operating leases with industrial development agencies for the promotion and retention of new and existing commercial and industrial development. The Authority is empowered to borrow money and issue bonds, notes, commercial paper, and other debt instruments to furnish money for the enhancement of business development projects, and additionally maintains the discretionary ability to set loan terms and interest rates.

**Housing Development Fund** The Fund is responsible for providing residential housing programs for low and moderate income families, elderly persons, and other eligible persons and families, as well as financing certain nonresidential projects. The Fund is empowered to issue bonds payable from mortgage payments and to issue general obligation bonds payable from other assets. The bonds of the Housing Development Fund do not constitute debt of the State.

**Parkways, Economic Development, and Tourism Authority** The Authority is responsible for operation and maintenance of the State turnpike and economic development and tourism projects approved by the Department of Transportation. The Authority is empowered to issue Parkway revenue refunding bonds and set rates for crossing the turnpike. The State has discretionary authority to reappropriate any surplus from the Authority.

**Water Development Authority** The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest



financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects.

**West Virginia Higher Education Fund** The Fund is responsible for providing the delivery of postsecondary education, which is competitive, affordable, and has the capacity to deliver the programs and services necessary to meet the regional and statewide needs of young people and working-age adults. The focus and collaboration of the Institutions within the Fund are to create a system of higher education that is equipped to increase the competitiveness and to diversify and to expand the State's workforce by increasing the number of college degrees produced. The Fund obtains revenues from state and federal student aid programs; tuition and fees; state and federal appropriations; sales and services of educational activities and auxiliary enterprises; federal, state, local, and nongovernmental grants and contracts; and gifts and contributions.

**Regional Jail and Correctional Facility Authority** The Authority is responsible for replacing individual county jails with regional jails. Along with the state correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

Nonmajor component units are presented beginning on page 211.

## West Virginia

### Combining Statement of Net Assets Discretely Presented Component Units June 30, 2007

(Expressed in Thousands)

|   | Economic<br>Development<br>Authority | Housing<br>Development<br>Fund | Parkways,<br>Economic<br>Development<br>and Tourism<br>Authority | Water<br>Development<br>Authority |
|---|--------------------------------------|--------------------------------|--|-----------------------------------|
| <b>Assets:</b>                                  |                                      |                                |  |                                   |
| Current Assets:                                 |                                      |                                |  |                                   |
| Cash and Cash Equivalents                       | \$ 56,918                            | \$ 36,432                      | \$ 6,576   | \$ 15,133                         |
| Investments                                     | —                                    | —                              | —  | —                                 |
| Receivables, Net                                | 10,207                               | 6,089                          | 1,917  | 8,893                             |
| Due from Other Governments                      | —                                    | —                              | —  | —                                 |
| Due from Primary Government                     | —                                    | —                              | 6  | 118                               |
| Inventories                                     | —                                    | —                              | 2,360  | —                                 |
| Other Assets                                    | 40                                   | —                              | 944  | —                                 |
| Restricted Assets:                              |                                      |                                |  |                                   |
| Cash and Cash Equivalents                       | 289                                  | 51,391                         | 11,072   | —                                 |
| Investments                                     | —                                    | —                              | 5,266  | —                                 |
| Other Restricted Assets                         | —                                    | —                              | —  | —                                 |
| Total Current Assets                            | <u>67,454</u>                        | <u>93,912</u>                  | <u>28,141</u>  | <u>24,144</u>                     |
| Noncurrent Assets:                              |                                      |                                |  |                                   |
| Cash and Cash Equivalents                       | —                                    | —                              | —  | —                                 |
| Investments                                     | 1,639                                | 7,354                          | —  | 1,200                             |
| Receivables, Net                                | 155,530                              | 39,391                         | —  | 7,650                             |
| Other Assets                                    | —                                    | 517                            | 2,000  | —                                 |
| Restricted Assets:                              |                                      |                                |  |                                   |
| Cash and Cash Equivalents                       | 12,318                               | 51,287                         | —  | 2,033                             |
| Investments                                     | —                                    | 104,799                        | 21,396   | 15,626                            |
| Receivables, Net                                | —                                    | 894,342                        | —  | 245,100                           |
| Other Restricted Assets                         | —                                    | 3,548                          | —  | —                                 |
| Capital Assets, Net                             | <u>24,757</u>                        | <u>300</u>                     | <u>517,772</u>   | <u>743</u>                        |
| Total Noncurrent Assets                         | <u>194,244</u>                       | <u>1,101,538</u>               | <u>541,168</u>   | <u>272,352</u>                    |
| Total Assets                                    | <u>261,698</u>                       | <u>1,195,450</u>               | <u>569,309</u>   | <u>296,496</u>                    |
| <b>Liabilities:</b>                             |                                      |                                |  |                                   |
| Current Liabilities:                            |                                      |                                |  |                                   |
| Accounts Payable                                | 5                                    | —                              | 423  | 10                                |
| Interest Payable                                | —                                    | 6,580                          | 712  | 2,659                             |
| Accrued and Other Liabilities                   | 299                                  | 18,852                         | 6,269  | —                                 |
| Unearned Revenue                                | —                                    | —                              | —  | —                                 |
| Due to Primary Government                       | 51                                   | —                              | 605  | 2                                 |
| Revenue Bonds Payable                           | —                                    | 24,925                         | 6,680  | 5,531                             |
| Capital Leases and Other Debt                   | 429                                  | —                              | 522  | —                                 |
| Compensated Absences                            | <u>30</u>                            | <u>—</u>                       | <u>—</u>   | <u>—</u>                          |
| Total Current Liabilities                       | <u>814</u>                           | <u>50,357</u>                  | <u>15,211</u>  | <u>8,202</u>                      |
| Noncurrent Liabilities:                         |                                      |                                |  |                                   |
| Unearned Revenue                                | 3,763                                | —                              | —  | —                                 |
| Advances from Primary Government                | 127,470                              | —                              | —  | —                                 |
| Liabilities Payable from Restricted Assets      | —                                    | 63,486                         | —  | —                                 |
| Accrued and Other Liabilities                   | 2,400                                | —                              | —  | 161                               |
| Revenue Bonds Payable                           | —                                    | 725,914                        | 87,194   | 236,470                           |
| Capital Leases and Other Debt                   | 5,885                                | —                              | 921  | —                                 |
| Compensated Absences                            | <u>96</u>                            | <u>3,072</u>                   | <u>2,557</u>   | <u>306</u>                        |
| Total Noncurrent Liabilities                    | <u>139,614</u>                       | <u>792,472</u>                 | <u>90,672</u>  | <u>236,937</u>                    |
| Total Liabilities                               | <u>140,428</u>                       | <u>842,829</u>                 | <u>105,883</u>   | <u>245,139</u>                    |
| <b>Net Assets:</b>                              |                                      |                                |  |                                   |
| Invested in Capital Assets, Net of Related Debt | 7,945                                | —                              | 422,455  | 743                               |
| Restricted for:                                 |                                      |                                |  |                                   |
| Capital Projects                                | —                                    | —                              | —  | —                                 |
| Debt Service                                    | —                                    | —                              | —  | —                                 |
| Nonexpendable                                   | —                                    | —                              | —  | —                                 |
| Lending Activities                              | —                                    | 270,616                        | —  | 26,128                            |
| Loans Receivable                                | 12,018                               | —                              | —  | —                                 |
| Specific Component Unit Purposes                | —                                    | —                              | 39,246   | —                                 |
| Unrestricted                                    | <u>101,307</u>                       | <u>82,005</u>                  | <u>1,725</u>   | <u>24,486</u>                     |
| Total Net Assets                                | <u>\$121,270</u>                     | <u>\$ 352,621</u>              | <u>\$463,426</u>   | <u>\$ 51,357</u>                  |

The accompanying notes are an integral part of the financial statements.

| <u>Higher<br/>Education</u> | <u>Regional<br/>Jail<br/>Authority</u> | <u>Other<br/>Component<br/>Units</u> | <u>Total</u>       |
|-----------------------------|--|--------------------------------------|--------------------|
| \$ 327,487                  | \$ 29,304                              | \$ 25,652                            | \$ 497,502         |
| 7,708                       | 1,531                                  | 7,432                                | 16,671             |
| 70,777                      | 20,261                                 | 2,678                                | 120,822            |
| 35                          | —                                      | —                                    | 35                 |
| 12,014                      | —                                      | 784                                  | 12,922             |
| 5,489                       | 874                                    | 51                                   | 8,774              |
| 4,760                       | —                                      | 784                                  | 6,528              |
| —                           | —                                      | 30,763                               | 93,515             |
| —                           | —                                      | —                                    | 5,266              |
| —                           | —                                      | 259                                  | 259                |
| <u>428,270</u>              | <u>51,970</u>                          | <u>68,403</u>                        | <u>762,294</u>     |
| 43,425                      | —                                      | —                                    | 43,425             |
| 328,378                     | —                                      | —                                    | 338,571            |
| 48,651                      | —                                      | —                                    | 251,222            |
| 46,113                      | —                                      | —                                    | 48,630             |
| —                           | 325                                    | —                                    | 65,963             |
| —                           | —                                      | —                                    | 141,821            |
| —                           | —                                      | —                                    | 1,139,442          |
| —                           | —                                      | 2,851                                | 6,399              |
| <u>1,648,047</u>            | <u>144,049</u>                         | <u>43,508</u>                        | <u>2,379,176</u>   |
| <u>2,114,614</u>            | <u>144,374</u>                         | <u>46,359</u>                        | <u>4,414,649</u>   |
| <u>2,542,884</u>            | <u>196,344</u>                         | <u>114,762</u>                       | <u>5,176,943</u>   |
| 60,145                      | 1,361                                  | 1,558                                | 63,502             |
| 3,379                       | —                                      | —                                    | 13,330             |
| 38,407                      | 1,499                                  | 378                                  | 65,704             |
| 61,855                      | —                                      | 131                                  | 61,986             |
| 730                         | 332                                    | 117                                  | 1,837              |
| 22,238                      | 4,335                                  | —                                    | 63,709             |
| 5,904                       | —                                      | 444                                  | 7,299              |
| <u>35,655</u>               | <u>3,184</u>                           | <u>345</u>                           | <u>39,214</u>      |
| <u>228,313</u>              | <u>10,711</u>                          | <u>2,973</u>                         | <u>316,581</u>     |
| —                           | —                                      | —                                    | 3,763              |
| —                           | —                                      | —                                    | 127,470            |
| —                           | —                                      | 28,536                               | 92,022             |
| 79,965                      | —                                      | 398                                  | 82,924             |
| 681,259                     | 81,645                                 | —                                    | 1,812,482          |
| 38,292                      | —                                      | 21,315                               | 66,413             |
| <u>64,372</u>               | <u>1,093</u>                           | <u>2,079</u>                         | <u>73,575</u>      |
| <u>863,888</u>              | <u>82,738</u>                          | <u>52,328</u>                        | <u>2,258,649</u>   |
| <u>1,092,201</u>            | <u>93,449</u>                          | <u>55,301</u>                        | <u>2,575,230</u>   |
| 977,945                     | 58,069                                 | 43,083                               | 1,510,240          |
| 19,806                      | 1,531                                  | —                                    | 21,337             |
| 8,680                       | 1,358                                  | —                                    | 10,038             |
| 114,346                     | —                                      | —                                    | 114,346            |
| —                           | —                                      | —                                    | 296,744            |
| —                           | —                                      | —                                    | 12,018             |
| 158,296                     | —                                      | 4,573                                | 202,115            |
| <u>171,610</u>              | <u>41,937</u>                          | <u>11,805</u>                        | <u>434,875</u>     |
| <u>\$1,450,683</u>          | <u>\$102,895</u>                       | <u>\$ 59,461</u>                     | <u>\$2,601,713</u> |

**Combining Statement of Activities  
Discretely Presented Component Units  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|  |                    | <b>Program Revenues</b>             |   |   |                                      |
|--|--------------------|-------------------------------------|---|---|--------------------------------------|
|  | <b>Expenses</b>    | <b>Charges<br/>for<br/>Services</b> | <b>Operating<br/>Grants<br/>and<br/>Contributions</b> | <b>Capital<br/>Grants<br/>and<br/>Contributions</b> | <b>Net<br/>(Expense)<br/>Revenue</b> |
| Component Units:   |                    |                                     |   |   |                                      |
| Economic Development Authority                           | \$ 8,317           | \$ 10,615                           | \$ —  | \$ —  | \$ 2,298                             |
| Housing Development Fund                                 | 114,391            | 60,930                              | 59,845  | —   | 6,384                                |
| Parkways, Economic Development,<br>and Tourism Authority | 75,331             | 65,822                              | —   | —   | (9,509)                              |
| Water Development Authority                              | 13,822             | 15,829                              | —   | —   | 2,007                                |
| Higher Education   | 1,364,663          | 585,125                             | 340,425   | 87,087  | (352,026)                            |
| Regional Jail Authority                                  | 79,165             | 77,005                              | —   | —   | (2,160)                              |
| Other Component Units                                    | <u>40,048</u>      | <u>11,874</u>                       | <u>1,327</u>  | <u>—</u>  | <u>(26,847)</u>                      |
| Total Component Units                                    | <u>\$1,695,737</u> | <u>\$827,200</u>                    | <u>\$401,597</u>                                      | <u>\$87,087</u>                                     | <u>\$(379,853)</u>                   |

The accompanying notes are an integral part of the financial statements.



| General Revenue                        |   |                |   |                             |                               |  |                                  |
|--|---|----------------|---|-----------------------------|-------------------------------|--|----------------------------------|
| Unrestricted<br>Investment<br>Earnings | Grants and<br>Contributions<br>not Restricted<br>for Specific<br>Programs | Miscellaneous  | Payments<br>from the<br>State of<br>West Virginia | Total<br>General<br>Revenue | Change<br>in<br>Net<br>Assets | Net<br>Assets,<br>Beginning<br>of Year,<br>as Restated | Net<br>Assets,<br>End<br>of Year |
| \$ 3,101                               | \$ —  | \$1,020        | \$ —  | \$ 4,121                    | \$ 6,419                      | \$ 114,851   | \$ 121,270                       |
| 13,259                                 | —   | —              | —   | 13,259                      | 19,643                        | 332,978  | 352,621                          |
| 2,711                                  | —   | —              | —   | 2,711                       | (6,798)                       | 470,224  | 463,426                          |
| 1,601                                  | —   | —              | —   | 1,601                       | 3,608                         | 47,749   | 51,357                           |
| 50,554                                 | 15,902  | —              | 423,858   | 490,314                     | 138,288                       | 1,312,395  | 1,450,683                        |
| 2,098                                  | —   | 5,494          | —   | 7,592                       | 5,432                         | 97,463   | 102,895                          |
| <u>778</u>                             | <u>305</u>  | <u>51</u>      | <u>23,502</u>                                     | <u>24,636</u>               | <u>(2,211)</u>                | <u>61,672</u>  | <u>59,461</u>                    |
| <u>\$74,102</u>                        | <u>\$16,207</u>   | <u>\$6,565</u> | <u>\$447,360</u>                                  | <u>\$544,234</u>            | <u>\$164,381</u>              | <u>\$2,437,332</u>                                     | <u>\$2,601,713</u>               |

**STATE OF WEST VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 1**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Reporting Entity**

The State of West Virginia is governed by elected officials. In accordance with GASB Statement No. 14, "The Financial Reporting Entity," these financial statements present the State (the primary government) and its component units. The component units discussed below are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

**Individual Component Unit Disclosures**

United States generally accepted accounting principles (GAAP) define component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. GAAP specifies two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions or discrete presentation of the component units' financial data in columns separate from the State's financial data.

**Blended Component Units**

The entities below are legally separate from the State and meet the GAAP criteria for component units. These entities are blended with the primary government because they provide services entirely or almost entirely to the State.

**Armory Board**

The State Armory Board is governed by the Governor, the State Auditor, and the Secretary of State. Its activities are blended in the nonmajor special revenue funds of the State. The State Armory Board serves the State by providing facilities for the activities of the regiment of the National Guard.

## Transportation

The Division of Highways, within the Department of Transportation, is governed by a commissioner appointed by the Governor; it does not have a governing board separate from the State Legislature. It is a legally separate entity defined by the State Constitution. Since its operations are to improve the State's roads, Transportation is blended in the special revenue and capital projects funds of the State.

## School Building Authority

The School Building Authority is governed by an eleven-member board. The Governor or his designee serves as chair. The remaining ten members are the State Superintendent of Schools, three members of the State Board of Education, and six citizens appointed by the Governor. The School Building Authority is blended in the nonmajor special revenue, debt service, and capital projects funds of the State since it exists to facilitate the State's responsibility for funding education. Its activities are designed to provide a financing vehicle for the acquisition, construction, and maintenance of school facilities to meet the educational needs of the State.

## West Virginia Investment Management Board

The West Virginia Investment Management Board (IMB) is governed by a thirteen-member Board of Trustees. The IMB was created as a public corporation by West Virginia Code §12-6-1 to serve as the administrator, investor, and manager of the State's pension, Workers' Compensation, Pneumoconiosis, and other State funds. The Governor, the State Auditor, and the State Treasurer are members of the Board and the other members are appointed by the Governor. Because there is a financial benefit-burden relationship between the State and the IMB, and assets of the State and its component units comprise over 90% of the assets managed by the IMB, it is blended in the internal service funds of the State.

## West Virginia Board of Treasury Investments

The West Virginia Board of Treasury Investments (BTI) is governed by a five-member board. The Governor, the State Auditor, and the State Treasurer are members of the Board and the other two members are appointed by the Governor. The BTI was created as a public corporation by West Virginia Code §12-6C-4 to provide prudent fiscal administration, investment and management for the Consolidated Fund and is blended in the internal service funds of the State.

### West Virginia Lottery

The West Virginia Lottery is governed by a seven-member board appointed by the Governor. It was formed to assist the State in funding education and other basic governmental activities. This is accomplished by transferring the net profits of the games conducted by the Lottery to other accounts for uses including, but not limited to, debt service, education, and promotion of tourism. Because the Lottery exists to provide funding entirely to the State, it is blended in the enterprise funds of the State.

### Tobacco Settlement Finance Authority

The Tobacco Settlement Finance Authority (TSFA) is governed by a five-member board, including the Secretary of Administration, the Treasurer of the State, and three persons appointed by the Governor. The TSFA was created to issue bonds related to the State's portion of the tobacco receipts from the Master Settlement Agreement between tobacco manufacturers and the covered states. The revenue bonds, secured by the tobacco revenues, are not a general obligation of the State. The TSFA is blended in the special revenue funds of the State, since its activities only benefit the State.

### Blended Component Unit Financial Statements

Audited financial statements for these blended component units, other than the Armory Board and the Tobacco Settlement Finance Authority which are not separately audited, can be obtained directly from their respective administrative offices.

#### Administrative Offices:

Board of Treasury Investments  
1900 Kanawha Blvd., East  
Room E-122  
Charleston, WV 25305

School Building Authority  
Finance Division  
2300 Kanawha Blvd., East  
Charleston, WV 25311

Transportation  
1900 Kanawha Boulevard, E.  
Building 5, Room A109  
Charleston, WV 25305

West Virginia Investment  
Management Board  
500 Virginia Street East  
Suite 200  
Charleston, WV 25301

West Virginia Lottery  
P.O. Box 2967  
Charleston, WV 25327

## Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. Because of the nature of the services they provide and the State's ability to impose its will on them, the following component units are discretely presented in accordance with GASB Statement No. 14. The State has both governmental (providing services to the government) and proprietary (providing services to external parties) component units. The component units are presented in a single column on the government-wide statements.

*The major discretely presented component units are comprised of the following entities:*

### Economic Development Authority

The Economic Development Authority (EDA) is administered by a nine-member board composed of the Governor, Secretary of Tax and Revenue, and seven other members appointed by the Governor. EDA is responsible for developing and advancing the business prosperity and economic welfare of the State. EDA is authorized to make loans, including direct financing and operating leases to industrial development agencies for the promotion and retention of new and existing commercial and industrial development. EDA is empowered to borrow money and issue bonds (with approval of the State), notes, commercial paper and other debt instruments to furnish money for the enhancement of business development projects, and has the ability to establish loan terms, including interest rates, at its discretion. EDA promotes economic development among private industries, and though its services benefit the State by increasing the tax base, its primary function is to provide jobs.

### Housing Development Fund

The Housing Development Fund (HDF) is governed by an eleven-member board consisting of the Governor, the Attorney General, the Commissioner of Agriculture, the State Treasurer, and seven other members appointed by the Governor. HDF is responsible for providing residential housing programs for low-income and moderate-income families, elderly persons, and other eligible persons and families, as well as financing certain nonresidential projects. It is empowered to issue bonds which are payable from the mortgage payments. The assets and revenues of the bond programs of the HDF are restricted by resolution to repay the outstanding debt.



### Parkways, Economic Development and Tourism Authority

The Parkways, Economic Development and Tourism Authority (the Authority) is composed of seven members. The Governor or his designee serves as its chairperson, the Secretary of the Department of Transportation is on the board, and five members are appointed by the Governor. Its responsibilities include the operation and maintenance of the West Virginia Turnpike (the Turnpike) as well as economic development and tourism projects approved by the Department of Transportation. The Authority sets the rates for using the Turnpike and may issue Parkway revenue refunding bonds payable solely from revenues of the Turnpike.

### Water Development Authority

The Water Development Authority (the Authority) is governed by a seven-member board. The Governor, the Secretary of the Department of Environmental Protection, and the Commissioner of the Bureau for Public Health are members ex-officio of the board. Four members are appointed by the Governor. The Governor serves as the chair. The Authority is responsible for assisting in the preservation, protection, improvement, and management of the State's water resources. The Authority oversees a loan pool program which provides low-interest financing to local governments for water and wastewater projects. The Authority issues bonds to fund the loan pool and uses the proceeds to purchase local government revenue bonds. The revenue bonds are payable solely from the revenues of the projects. The Authority also serves as the financial administrator of the West Virginia Infrastructure and Jobs Development Council (a major governmental fund) and the West Virginia Water Pollution Control Revolving Fund (an enterprise fund).

### Higher Education Fund

Each college and university in the Higher Education Fund (the Fund) is governed by a Governing Board, which is responsible for the general determination, control, supervision and management of the financial business and educational policies and affairs of the institution(s). The West Virginia Higher Education Policy Commission (the Policy Commission), in accordance with Senate Bill No. 653, is the single accountability point responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. It is comprised of ten persons, seven appointed by the Governor with the advice and consent of the Senate, and the Secretary of Education and the Arts, the State Superintendent of Schools, and the chairperson of the West Virginia Council for Community and Technical College Education. The Policy Commission is responsible for preparing and submitting a consolidated budget and allocating state appropriations to supplement institutional operating revenues.

Senate Bill 448 created the West Virginia Council for Community and Technical College Education (the Council), which has responsibility for developing, overseeing, and advancing the State's public policy agenda as it relates to community and technical college education. The Council is comprised of twelve persons appointed by the Governor with the advice and consent of the Senate.

The Fund is comprised of the following: Bluefield State College, New River Community and Technical College, Concord University, Eastern West Virginia Community and Technical College, Fairmont State University, Glenville State College, Marshall University (including Marshall University Graduate College), Shepherd University, Blue Ridge Community and Technical College, Southern West Virginia Community and Technical College, West Liberty State College, West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing), West Virginia Northern Community College, West Virginia State University, West Virginia School of Osteopathic Medicine, and West Virginia University (including Potomac State College, West Virginia University Institute of Technology, and West Virginia University at Parkersburg regional campuses).

In accordance with GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units," the Fund's component units' financial statements are included in the Fund's component unit column in the Discretely Presented Major Component Units Financial Statements of the CAFR. The component units are the separate private nonprofit organizations of each applicable institution that are required to be reported under GASB Statement No. 39. Those organizations report under FASB standards, including FASB Statement No. 117, "Financial Reporting for Not-for-Profit Organizations." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose "... to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations ...". Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy, and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the basic financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore included with the Fund's financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation Inc. is appropriately not reported because the economic resources held do not entirely or almost entirely benefit West Virginia University. The Eastern West Virginia Community and Technical College is not included because it was not significant to the institution. The Southern West Virginia Community College Foundation Inc. and the Greenbrier Community College Foundation Inc. are included for the first time in the fiscal year ended June 30, 2007, because they have become significant. Blue Ridge Community and Technical College does not have a related foundation.

Complete financial statements for any college, university or foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E., Suite 700, Charleston, WV 25301.

#### Regional Jail and Correctional Facility Authority

The Regional Jail and Correctional Facility Authority (hereafter referred to as the Regional Jail Authority) is governed by a seven-member board of which five members are appointed by the Governor. It was formed to replace individual county jails with regional jails. Along with the State correctional institutions, the Regional Jail Authority is part of the consolidated penal system of this State. Although the construction of additional jails is ongoing, the operating focus has become the confinement of prisoners and existing jail operations. A majority of the operations, as well as a majority of the debt service, are financed by per diem fees for prisoners and court fees rather than appropriations from the State. No bonds or other obligations may be issued until the Legislature has approved the purpose and amount of each project.

*The nonmajor discretely presented component units are comprised of the following entities:*

#### Educational Broadcasting Authority

The Educational Broadcasting Authority (EBA) consists of eleven members. Seven members are appointed by the Governor. The other four members include the State Superintendent of Schools, one member from the West Virginia Board of Education, and two members from the West Virginia Higher Education Policy Commission. EBA is responsible for extending educational, cultural, and informational experiences to all State citizens. This is accomplished through the construction and operation of noncommercial educational television and radio stations and related facilities statewide. EBA provides statewide telecommunication services for other state and public service agencies for nonbroadcasted activities such as teleconferencing, in-service training, and data delivery. EBA's revenues are derived primarily through donations, with a portion of operational costs supplemented by state and federal grants.

### Jobs Investment Trust

The Jobs Investment Trust (the Trust) consists of thirteen members. The Governor, the President of West Virginia University, the President of Marshall University, the Chancellor of the West Virginia Higher Education Policy Commission, and the Executive Director of the West Virginia Housing Development Fund serve on the board by virtue of their respective positions. One member is appointed by the Governor from a list of two names submitted by the board of directors of the Housing Development Fund. One member is appointed by the Governor from a list of two names submitted by the Commissioner of the Division of Tourism. The other six members are appointed from the general public by the Governor. The Trust is responsible for the development, promotion, and expansion of West Virginia's economy and to provide opportunities to businesses and college and university students to develop and implement plans for innovative projects and investment opportunity.

### West Virginia State Rail Authority

The West Virginia State Rail Authority (Rail Authority) consists of seven members. Six members are appointed by the Governor and the seventh member is the Secretary of the Department of Transportation. The Rail Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State. It can issue bonds and set rates for the rail system. The Rail Authority receives federal and state grants to supplement its cost of operations.

### Solid Waste Management Board

The Solid Waste Management Board (the Board) is composed of seven members. Five members are appointed by the Governor and the remaining members are the Secretary of the Department of Health and Human Resources and the Director of the Division of Environmental Protection. The Board is responsible for improving collection and disposal of solid wastes and encouraging recycling, reuse, and recovery of resources from wastes. The Board is the financing mechanism for solid waste projects and is empowered to issue bonds (with approval of the Water Development Authority) and set a rate structure.

### Racing Commission

The Racing Commission consists of three members appointed by the Governor, by and with the consent of the Senate. The Racing Commission has full jurisdiction over and shall supervise all horse race meetings, all dog race meetings, and all persons involved in the holding and conducting of horse and dog race meetings. It has the power to set fees and grant licenses and permits pertaining to horse and dog race meetings, as well as regulate the horse and dog race wagering.

**Public Defender Corporation**

The Public Defender Corporation represents the combined nonprofit corporations, created under authority of West Virginia Code §29-21, for the purpose of fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation disbursed in periodic allotments determined by the Executive Director of the Public Defender Services, who is appointed by the Governor. The governing body of each public defender corporation is a Board of Directors appointed by the county commissions and the Governor.

**Discretely Presented Component Unit Financial Statements**

Complete audited financial statements of the individual discretely presented component units can be obtained directly from their respective administrative offices.

**Administrative Offices:**

Economic Development Authority  
Northgate Business Park  
160 Association Drive  
Charleston, WV 25311-1217

Housing Development Fund  
814 Virginia Street, East  
Charleston, WV 25301-2877

Parkways, Economic Development  
and Tourism Authority  
P.O. Box 1469  
Charleston, WV 25325-1469

Water Development Authority  
180 Association Drive  
Charleston, WV 25311-1571

Higher Education Policy Commission  
Administrative Services  
1018 Kanawha Boulevard, East  
Suite 700  
Charleston, WV 25301

Regional Jail Authority  
1325 Virginia Street, East  
Charleston, WV 25301

Educational Broadcasting Authority  
600 Capitol Street  
Charleston, WV 25301

Jobs Investment Trust  
814 Virginia Street, East  
Suite 202  
Charleston, WV 25301-2877

West Virginia State Rail Authority  
120 Water Plant Drive  
Moorefield, WV 26836-0470

Solid Waste Management Board  
601 57th Street, SE  
Charleston, WV 25304



Racing Commission  
106 Dee Drive  
Charleston, WV 25311

West Virginia Public  
Defender Corporation  
1900 Kanawha Boulevard, East  
Building 3, Room 330  
Charleston, WV 25305

## **Joint Venture**

The Stonewall Jackson Lake State Park Project (the Project) is a joint development of certain facilities at Stonewall Jackson Lake involving the Division of Natural Resources (DNR), the United States Corps of Engineers, and McCabe-Henley Properties LP (MHP), a West Virginia limited partnership. MHP was engaged by the DNR as the sole developer and operator of the Project. Revenue bonds for the Project were issued as conduit debt by the West Virginia Economic Development Authority in 2000. The bonds are payable solely from the revenues of the Project. The DNR has neither the power to pledge the credit of the State, nor to levy taxes or assessments, nor to issue debt on behalf of the Project.

The Project incurred net losses of \$6,853,226 and \$5,080,340 for the years ended December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the Project's current liabilities exceeded its current assets by \$50,598,069 and \$44,827,403, respectively, and its total liabilities exceeded its total assets by \$7,174,512 and \$321,286, respectively. Additionally, the Project has been unable to make its scheduled debt service payments when due, resulting in an event of default. Presently, the Project has no additional sources of funding available which can be accessed to satisfy existing or future financial obligations imposed by its revenue bonds or notes payable. Cash flows generated from the Project's operations have not historically been sufficient to enable the Project to fund its operations and satisfy its debt obligations.

The Master Trust Indenture states that given the event of default, the outstanding balance on the revenue bonds may be declared due and payable in the manner and with the effect provided in the Indenture. Certain remedies available upon the occurrence of an event of default are set forth in the Indenture. At this time, the bondholders have formed a committee to explore their options but as yet have not exercised their rights with regard to the default.

The losses, negative cash flows from operations, bond covenant violations, and the Project's inability to meet its debt service requirements raise substantial doubt about the Project's ability to continue as a going concern. Furthermore, the independent auditor's report on the Project's financial statements for the year ended December 31, 2006, included a going-concern opinion paragraph emphasizing that these conditions raised substantial doubt about the Project's ability to continue as a going concern. The Developer is continuing in its efforts to market the Stonewall Resort for conferences and as a vacation destination to increase revenues, and to monitor its cost of operations.

The State does not include the financial activities of the Project in its financial statements. Financial statements of the Project are available from the Stonewall Resort, 940 Resort Drive, Roanoke, WV 26447.

### **Basis of Presentation**

The accompanying basic financial statements of the State of West Virginia (the State) conform to United States generally accepted accounting principles (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP in a similar manner as applied for business activities in the private sector. As a result, the financial statements of certain component units follow the specialized reporting practices of the insurance, housing finance agency, and other not-for-profit industries, as prescribed by the GASB and other authoritative sources, including pronouncements of the Financial Accounting Standards Board (FASB).

As allowed by GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the State and the majority of its component units have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The IMB, the Educational Broadcasting Authority, and the Public Defender Corporation have elected to follow all FASB Statements and Interpretations, APB Opinions and ARBs, except those that conflict with or contradict GASB pronouncements.

The basic financial statements have been prepared primarily by the Financial Accounting and Reporting Section (FARS) of the Department of Administration from accounts maintained by the State Auditor's Office, the State Treasurer's Office, the Board of Treasury Investments, and the Investment Management Board. Additional data has been derived from the audited financial statements of certain entities and from reports and data prepared by various state agencies and departments, based on independent or subsidiary accounting records maintained by them.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Adjustments to estimates are recorded, as appropriate, in periods in which they are determined.

Certain net asset accounts for the discretely presented component units presented for the preceding year have been restated or reclassified. See Note 2 for further explanation.

## **Government-wide and Fund Financial Statements**

### Government-wide Financial Statements

The government-wide financial statements, which are the statement of net assets and the statement of activities, report information on all the nonfiduciary activities of the primary government and its component units. These activities are reported as governmental activities, business-type activities or component units. The governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange revenues, and are reported separately from the business-type activities. The business-type activities rely significantly on fees and charges to external parties for their support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the State's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints are placed on net asset use by external creditors, grantors, contributors, etc. or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them available for general operations. They also often have constraints on resources imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included in program revenues are reported as general revenue.

### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus. These funds report only assets and liabilities, recognizing receivables and payables using the accrual basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, revenues are primarily considered available if received in the first 60 days of the new fiscal year. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal awards, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal awards are considered available when the related expenditures have been incurred and if received in twelve months. Receipts and disbursements of U.S. Government food stamps are accounted for in the General Fund. The electronic benefits transfer (EBT) process for food stamp revenue equal to expenditures is recognized when the underlying transaction (food purchase) occurs. Revenues from other sources are recognized when received.

The State early implemented GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" due to the creation of the Tobacco Settlement Finance Authority (TSFA). This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. A receivable for the Tobacco Settlement revenue is recognized based upon the annual estimated payment under the Master Settlement Agreement. At June 30, 2007, \$34.9 million of receivables has been recognized by the TSFA. More information about the revenues sold is contained in Note 10.

Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences, environmental obligations, and claims and judgments, are recorded only when payments are due.

## **Governmental Fund Types**

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than certain debt service activities and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term indebtedness.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure projects (other than those financed by proprietary funds).

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the State or its citizenry. The Irreducible School Fund was constitutionally established for educational purposes.

*The State reports the following major governmental funds:*

The General Fund is the primary operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State (e.g., health, social assistance, public safety, primary and secondary education), which are not required to be accounted for within other funds.

Transportation has responsibility for the construction, maintenance, and improvement of all state roads; development of public transportation facilities, services, equipment, and methods; and supervision and control of commercial, state, and municipal airports and ports.

The West Virginia Infrastructure and Jobs Development Council coordinates the review and funding of water, wastewater, and economic development projects within the State.

The Tobacco Settlement Finance Authority (TSFA) was established to sell bonds that are being funded by projected future cash flows from the Master Settlement Agreement between the manufacturers and the states. The TSFA acquired the State's rights to the revenue under the Master Settlement Agreement and will now receive the cash flows and transfer the monies to the trustee upon receipt.



## **Proprietary Fund Types**

Enterprise Funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis, or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees and charges of the activity. These funds include the State's risk management and insurance funds as well as the West Virginia Lottery, the Alcohol Beverage Control Administration, two water treatment loan programs, and the West Virginia Prepaid College Plan.

Internal Service Funds account for the operations of those state agencies that provide goods and services to other state agencies and governmental units on a cost-reimbursement basis. These services include government building and vehicle maintenance and leasing, data processing functions, and the investment and management of state funds. In the government-wide statements, internal service funds are included with governmental activities.

*The State reports the following major enterprise funds:*

The West Virginia Lottery accounts for lottery ticket revenue, administrative and operating expenses, and distribution of net revenue to the General Fund.

The Water Pollution Control Revolving Fund provides low-interest loans to communities to upgrade or establish sewer service, to clean up the State's water supply, and assist local governmental entities in complying with the Clean Water Act.

The Workers' Compensation Fund provides compensation for injury or illness sustained during the course of employment with a date of injury on or before June 30, 2005, (see Note 14).

Unemployment Compensation operates local offices throughout the State to provide temporary assistance to eligible unemployed workers.

The Public Employees' Insurance Agency and the Board of Risk and Insurance Management are shown with the proprietary major funds due to their importance to management.

Additionally, the State reports the following fund types:

### **Fiduciary Fund Types**

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans and defined contribution plan.

Other Postemployment Trust Fund reports resources that are held in trust for the members and beneficiaries of the multi-employer, cost-sharing other postemployment benefit plan.

Investment Trust Funds report resources in external investment pools that belong to local governments and municipalities.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. The Smart 529 College Savings Plan allows citizens to defer taxes on earnings for college tuition.

Agency Funds are used to account for assets held by the State as an agent for individuals, private organizations or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. Taxes that will be remitted to respective local governments and hospital patient and inmate funds are examples of the State's agency funds.

### **Interfund Activity and Balances**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: activities between funds reported as governmental activities and funds reported as business-type activities; and activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund expending the resources. An example is lottery proceeds collected by the West Virginia Lottery, but expended by the Department of Education.

Interfund receivables and payables have been eliminated from the statement of net assets, except for the residual amounts due between governmental and business-type activities.

## **Assets and Liabilities**

Cash and Cash Equivalents - Cash equivalents are short-term investments with maturities, when purchased, of three months or less. The State Treasurer principally deposits the State's cash in investment pools maintained by the Board of Treasury Investments (BTI) and IMB, and such deposits are generally available with overnight notice. Deposits in the BTI pools that are 2a-7-like pools are reported at amortized cost, which approximates the fair value of underlying securities. Cash deposits in outside bank accounts are considered to be cash and cash equivalents.

Investments - Amounts reported as investments include certain deposits with the IMB, the BTI and other investments maintained in outside accounts. The investments at IMB are maintained in investment pools having long-term investment securities designated as trading securities or established to acquire participant-directed securities. The State participates in three external investment pools managed by the BTI. Two are reported at amortized cost, which approximates fair value. The third is a longer-term investment pool that carries investments at fair value. The fair value of investments is derived from a third-party pricing service based on asset portfolio pricing models and other sources. IMB's investments in the Short-Term Fixed Income Pool are carried at amortized cost. Futures and option contracts are valued at the last settlement price established each day by the exchange on which they are traded. Investments in commingled investment pools are valued at the reported unit values of the individual funds. Because fair value of the investments of the State Building Fund approximates amortized cost, no noncash change in fair value is reported.

Inventories - Consumable inventories, consisting of expendable materials and supplies held for consumption, are valued and reported for financial statement purposes. Materials and supplies inventories are physically counted and primarily valued at the first-in, first-out method (FIFO) and average cost at year-end. Inventories of governmental funds are recorded using the consumption method. A reservation of fund balance is recorded for the ending inventory amount, indicating that inventory does not constitute "expendable available financial resources." Proprietary fund and component units' inventories are valued at the lower-of-cost or market, cost being determined on FIFO, and are expensed when used.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market

value or estimated fair market value at the time of the donation. In accordance with the capitalization policy adopted by the State for financial reporting, equipment in excess of \$25,000 is capitalized. Certain small blended component units follow other capitalization policies which range from \$5,000 to \$25,000 for equipment. The Higher Education component unit uses \$1,000 and \$5,000 thresholds. Buildings and improvements which extend the useful lives and/or significantly increase values of capitalized buildings with a combined value in excess of \$100,000 are capitalized. All land, regardless of acquisition price, is capitalized.

West Virginia is one of only four states that owns all the paved roads in the State, except for streets. Infrastructure was capitalized for the first time in fiscal year 2002. Transportation's infrastructure constructed from July 1, 1980 to July 1, 2001, has been recorded at estimated historical cost. The estimated historical cost for years 1980-2001 was based on capital outlay expenditures reported by DOT in the annual reports for those years, less an amount estimated for the historical cost of the acquisition of land for right-of-way. DOT has not capitalized any infrastructure expenditures for assets constructed prior to July 1, 1980, as permitted by GASB 34. The costs of normal maintenance and repairs that do not add to the asset's value or materially extend an asset's useful life are not capitalized. Interest incurred during construction of capital facilities is not capitalized. Other agencies are capitalizing all infrastructure assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The capital assets are depreciated over their estimated useful lives using the straight-line depreciation method. Amortization of capital lease assets is included with depreciation expense. Equipment, depending on type, is depreciated over 3-20 years. Buildings are depreciated over various lives, ranging from 20-50 years. The infrastructure assets are depreciated over a period of 20-50 years. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Impaired assets and insurance recoveries are analyzed for significance and recorded accordingly.

The State possesses certain capital assets that have not been capitalized and depreciated, including works of art and historical treasures, such as monuments, historical documents, paintings, antiques, pioneer, Indian, and Civil War artifacts, etc. GASB Statement No. 34 does not require the capitalization of works of art and historical treasures if the collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. The State considers its collections as inexhaustible, protected collections for exhibition and education, not for financial gain.

Accrued Tuition Contract Benefits - An accrued tuition contract benefits liability is recognized based upon the actuarial present value of the future tuition contract obligation. This valuation method reflects the present value of estimated tuition contract benefits that will be paid in future years and is adjusted for the effects of projected tuition and fee increases and termination of contracts. When a beneficiary of the prepaid tuition program is accepted to an eligible college or university, the contract becomes redeemable. Benefits can be transferred to any fully accredited private or out-of-state college or university within the United States in an amount based on the average cost of tuition and fees then charged by West Virginia public colleges and universities. While a beneficiary has up to ten years after high school to use the plan benefit, four other options are available: 1) the purchaser may transfer the contract benefits to an eligible substitute beneficiary; 2) at any time four years or more after the beneficiary's expected college entrance date, the purchaser may request a refund of the contract benefit value, less a termination fee and an earnings penalty required by federal law; 3) at any time, the purchaser may cancel the contract and receive a refund of payments made, less administrative fees and any benefits already paid; or 4) the purchaser may transfer the prepaid contract value to the Program's Savings Plan in accordance with state and federal regulations.

Insurance Enterprises and Obligations - The Board of Risk and Insurance Management, (BRIM), the Public Employees' Insurance Agency (PEIA) and the Workers' Compensation Fund (WCF) each represent and are accounted for as insurance enterprise funds of the State. These funds follow the guidance of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," and GASB Statement No. 30, "Risk Financing Omnibus." BRIM and PEIA are considered public entity risk pools (enterprise funds). Each organization has included the required supplementary information (in accordance with GASB Statement No. 30) in its separately audited financial statements.

Advances - The amount of Economic Development Authority loans held by the State's General Fund at June 30, 2007, is approximately \$127.5 million and is recorded as Advances to/from Component Units.

Long-Term Liabilities - In the government-wide financial statements and proprietary fund financial statements, long-term obligations, including claims and judgments, environmental obligations and compensated absences, are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective-interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - Employees accumulate annual leave (vacation) balances to maximum amounts ranging from 240 to 320 hours. Most employees receive a 100% termination payment upon separation based upon their final rate of pay. The liability for annual leave is valued at 100% of the balance plus the State's share of Social Security and retirement contributions. In lieu of a cash payment, at retirement an employee can elect to use accumulated annual leave toward their postemployment health care insurance premium. State employees earn sick leave benefits, which accumulate, but do not vest. When separated from employment with the State, an employee's sick leave benefits are considered ended and no reimbursement is provided. However, eligible employees may convert, at the time of retirement, any unused accumulated sick leave to pay a portion of the employee's postemployment health care insurance premium. If this option is not selected, the leave amount may be applied toward an increase in the employee's retirement benefits with such sick leave constituting additional credited service in computation of such benefits. These options and computations may occur for state employees under the State's retirement systems. Currently, the computation of compensated absences does not include the projected unused sick leave portion expected to be elected as additional credited service towards retirement. However, the unused portion of sick leave that is expected to be converted to additional credited service for retirement benefits is considered in the actuarial valuation used to calculate the net pension obligation. The liability for accumulated sick leave for employees has been recorded using the vesting method.

Net Assets/Fund Balance - The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

Restricted Net Assets - Certain net assets are restricted due to legal restrictions from creditors, grantors, or laws and regulations of other governments. Certain other net assets are restricted by legally enforceable enabling legislation of the State (see Note 2).

Reservations - Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect funds legally segregated for a specific use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Unreserved designated fund balance represent management's desire to maintain certain funds for future use.

Revenues and Expenditures/Expenses - In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type and discretely presented component units), then further by function (e.g., administration, education, transportation, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal awards), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current," "Capital Outlay," or "Debt Service." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies, and services. Capital outlay includes expenditures for real property or infrastructure. Debt service includes both interest and principal outlays related to bonds and payments on capital leases.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g., sales, depreciation, etc.). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Retiree Drug Subsidies - The retiree drug subsidy (RDS) revenue from the federal government under the provisions of Medicare Part D have been recorded by the Retiree Health Benefit Trust Fund (RHBT). RHBT has accounted for the RDS revenue as voluntary nonexchange transactions in accordance with GASB Technical Bulletin 2006-1. Accordingly, RDS estimated revenue is recognized as RHBT incurs Medicare-eligible retiree prescription drug expenditures.

Other Financing Sources - These additions to governmental fund balances in the fund financial statements include resources and financing provided by bond proceeds, capital leases, and transfers from other funds.

Other Financing Uses - These reductions of governmental fund resources in the fund financial statements normally result from transfers to other funds.

Interfund Services Provided and Used - When a sale or purchase of program-related goods and/or services between funds occurs, for a price approximating their external exchange value, the seller reports revenue and the purchaser reports an expenditure or expense, depending on the fund type. Transactions between the primary government and a discretely presented component unit are generally classified as revenues and expenses, unless they represent repayments of loans or similar activities.

### **Future Adoption of Accounting Pronouncements**

The GASB has issued Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” (OPEB). The State has not historically reported in its financial statements costs associated with future participation of retirees in health benefit plans. This GASB statement is based on the premise that the “costs” of employee services should be reported during the periods when the services are rendered. Beginning with fiscal year ending June 30, 2008, the State will implement accounting and financial reporting requirements as an employer under GASB Statement No. 45. In conjunction with the implementation, the State will report “expense” on an accrual basis in the amount of the “annual required contribution” and a “liability” for the amount of the “annual required contribution” that was not actually paid.

The State’s participation in the costs of the health benefit plans remains subject to the annual appropriations process, and the plan terms, benefits, and cost to participants remain within the discretion of PEIA. This is not changed by GASB Statement No. 45 which is a financial reporting standard and does not govern fiscal management or establish legal requirements.

Policy, budget, and program areas of State government are actively considering and planning proper responses to health care costs in general and specifically retiree health costs. Actuarial studies have been done to facilitate evaluation of possible reductions in the OPEB benefits offered, including plan modifications, increasing levels of employee contributions or other cost-sharing provisions. The actuarial valuation estimated the current discounted unfunded actuarial liability at June 30, 2007, to be \$3.08 billion discounted using a 5.22% investment rate of return. The estimated ARC for fiscal year 2008 for all participants in the multi-employer, cost-sharing plans is \$316.5 million.

The preparation of any estimate of future postemployment health costs requires consideration of a broad array of complex social and economic events. Future changes in the Medicare Advantage Prescription drug program, changes in reimbursement methodology, the emergence of new and expensive medical procedures, prescription drugs options, and investment rate of return, increase the level of uncertainty of such estimates. As such, the estimate of postemployment health program costs contains considerable uncertainty and variability and actual experience may vary significantly from the current estimated obligation.

The GASB recently issued Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations.” This statement establishes accounting and financial reporting standards for liabilities related to pollution remediation and will be effective for the State for the fiscal year ending June 30, 2009. The State has not yet estimated the financial statement impact of this pronouncement.

The GASB recently issued Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” This statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The State has not yet estimated the financial statement impact of this pronouncement, which is effective for fiscal year 2010.

The GASB recently issued Statement No. 52, “Land and Other Real Estate Held as Investments by Endowments.” This statement establishes accounting and financial reporting standards for land and other real estate investments at fair value and will be effective for the State for the fiscal year ending June 30, 2009. The State has not yet estimated the financial statement impact of this pronouncement.

## NOTE 2

## RESTATEMENTS, RESTRICTED, RESERVED, AND DESIGNATED BALANCES

## Restatement of Beginning Balances

During the current fiscal year, the Southern West Virginia Community College Foundation, Inc. and Greenbrier Community College Foundation, Inc. were included in Higher Education's financial statements which caused a restatement of beginning net assets. The foundations were excluded in prior years because they were not significant to their Institutions. The Racing Commission also restated their beginning net assets because certain transactions previously reported as assets and revenues were actually collected and held in a fiduciary capacity and have been reclassified to the noncurrent Liabilities Payable from Restricted Assets. The beginning net assets of the discretely presented component units of Higher Education, Racing Commission, and the total Component Units on the component unit statements were restated for the correction of errors as shown below. The total beginning net assets for the component units on the government-wide Statement of Activities also was restated as shown here (expressed in thousands):

| <u>Net Assets</u> | <u>As<br/>Previously<br/>Reported</u> | <u>Adjustment</u> | <u>Restated</u> |
|-------------------|---------------------------------------|-------------------|-----------------|
| Higher Education  | \$1,311,110                           | \$ 1,285          | \$1,312,395     |
| Racing Commission | 28,001                                | (21,460)          | 6,541           |
| Component Units   | 2,457,507                             | (20,175)          | 2,437,332       |

## Restricted Net Assets

The following tables summarize the restricted net assets of funds included in "other" columns at June 30, 2007, (expressed in thousands):

| <u>Fund Type/Fund</u>                   | <u>Total<br/>Reporting<br/>Entity</u> | <u>Capital<br/>Projects</u> | <u>Program<br/>Administration</u> | <u>Lending<br/>Activities</u> | <u>Other<br/>Specific<br/>Fund<br/>Purposes</u> |
|---|---------------------------------------|-----------------------------|-----------------------------------|-------------------------------|---|
| Enterprise Funds:                       |                                       |                             |                                   |                               |   |
| Drinking Water Treatment Revolving Fund | \$ 60,960                             | \$ —                        | \$ —                              | \$60,960                      | \$ —  |
| West Virginia Prepaid College Plan      | 891                                   | —                           | 891                               | —                             | —   |
| AccessWV                                | <u>6,246</u>                          | <u>—</u>                    | <u>6,246</u>                      | <u>—</u>                      | <u>—</u>  |
|   | <u>68,097</u>                         | <u>—</u>                    | <u>7,137</u>                      | <u>60,960</u>                 | <u>—</u>  |
| Internal Service Funds:                 |                                       |                             |                                   |                               |   |
| State Building Fund                     | <u>42,860</u>                         | <u>42,860</u>               | <u>—</u>                          | <u>—</u>                      | <u>—</u>  |
| Discretely Presented Component Units:   |                                       |                             |                                   |                               |   |
| Educational Broadcasting Authority      | 386                                   | —                           | —                                 | —                             | 386   |
| Solid Waste Management Board            | <u>4,187</u>                          | <u>—</u>                    | <u>—</u>                          | <u>—</u>                      | <u>4,187</u>                                    |
|   | <u>4,573</u>                          | <u>—</u>                    | <u>—</u>                          | <u>—</u>                      | <u>4,573</u>                                    |
| Total                                   | <u>\$115,530</u>                      | <u>\$42,860</u>             | <u>\$7,137</u>                    | <u>\$60,960</u>               | <u>\$4,573</u>                                  |

The government-wide statement of net assets reports \$1,888,481,000 of restricted net assets for the primary government of which \$1,175,799,000 is restricted by enabling legislation.

### **Reserved Fund Balance**

The following table summarizes the reserved fund balance of funds included in “other” columns at June 30, 2007, (expressed in thousands):

| <b>Fund Type/Fund</b>  | <b>Total<br/>Reporting<br/>Entity</b> | <b>Capital<br/>Projects</b> | <b>Debt<br/>Service</b> | <b>Program<br/>Administration</b> | <b>Permanent<br/>Funds</b> |
|--|---------------------------------------|-----------------------------|-------------------------|-----------------------------------|----------------------------|
| Governmental Funds   |                                       |                             |                         |                                   |                            |
| Special Revenue Funds:                                       |                                       |                             |                         |                                   |                            |
| WORKFORCE West Virginia                                      | \$ <u>13,842</u>                      | \$ <u>—</u>                 | \$ <u>—</u>             | \$ <u>13,842</u>                  | \$ <u>—</u>                |
| Capital Projects Funds:                                      |                                       |                             |                         |                                   |                            |
| State Road   | 82,018                                | 82,018                      | —                       | —                                 | —                          |
| School Building Authority                                    | 156,440                               | 156,440                     | —                       | —                                 | —                          |
| Lease Purchase Accounts                                      | <u>26,378</u>                         | <u>26,378</u>               | <u>—</u>                | <u>—</u>                          | <u>—</u>                   |
|  | <u>264,836</u>                        | <u>264,836</u>              | <u>—</u>                | <u>—</u>                          | <u>—</u>                   |
| Debt Service:  |                                       |                             |                         |                                   |                            |
| School Building Authority                                    | 53,512                                | —                           | 53,512                  | —                                 | —                          |
| West Virginia Infrastructure<br>and Jobs Development Council | 348                                   | —                           | 348                     | —                                 | —                          |
| Education, Arts, Sciences, and<br>Tourism Fund               | 27,617                                | —                           | 27,617                  | —                                 | —                          |
| Lease Purchase Accounts                                      | 12,682                                | —                           | 12,682                  | —                                 | —                          |
| Economic Development Project Fund                            | <u>38,150</u>                         | <u>—</u>                    | <u>38,150</u>           | <u>—</u>                          | <u>—</u>                   |
|  | <u>132,309</u>                        | <u>—</u>                    | <u>132,309</u>          | <u>—</u>                          | <u>—</u>                   |
| Permanent Funds:   |                                       |                             |                         |                                   |                            |
| Irreducible School   | <u>1,762</u>                          | <u>—</u>                    | <u>—</u>                | <u>—</u>                          | <u>1,762</u>               |
| Total  | <u>\$412,749</u>                      | <u>\$264,836</u>            | <u>\$132,309</u>        | <u>\$13,842</u>                   | <u>\$1,762</u>             |

The amount reserved for Specific Fund Purposes, \$198,258,000, includes other legally segregated accounts in the General Fund such as: flood disaster accounts, funds collected on behalf of injured third parties, certain education funds, certain economic development funds, certain wildlife and conservation funds, and escrow accounts.

### **Designated Fund Balance**

Designation of fund balance for loans and grants in the governmental funds of \$94,961,000 represents commitments of West Virginia Infrastructure and Jobs Development Council to loan funds to applicants for infrastructure projects. After year-end and through December 31, 2007, loan and grant agreements were executed for approximately \$17.8 million of these funds.



## NOTE 3

### FUND DEFICITS

Individual funds with net asset/fund balance deficits at June 30, 2007, were as follows (expressed in thousands):

|                                    | Net Asset/<br>Fund Balance<br>Deficit |
|------------------------------------|---------------------------------------|
| <b>Special Revenue Funds:</b>      |                                       |
| WORKFORCE West Virginia            | \$ 4,276                              |
| <b>Enterprise Funds:</b>           |                                       |
| Workers' Compensation Fund         | 1,810,318                             |
| West Virginia Prepaid College Plan | <u>2,494</u>                          |
| Total Deficits                     | <u>\$1,817,088</u>                    |

### Special Revenue Funds

The fund balance of the WORKFORCE West Virginia (formerly Bureau of Employment Programs) changed from \$6.4 million deficit to a deficit of \$4.3 million, a 33.4% increase in fund balance. Consequently, WORKFORCE West Virginia's unrestricted net assets show a \$23.3 million deficit at the end of the year. The unrestricted net asset deficit decreased from \$26 million, which is a 10.3% decrease from last year. WORKFORCE West Virginia has taken steps to strengthen internal controls within the organization and to improve fiscal accountability and monitoring of the local workforce investment boards. Procedures are being put into place to ensure that charges to programs are allowable and proper and that grant obligations do not exceed the current grant funds available. Fiscal guidelines for the local workforce investment boards have been issued and fiscal training with their key fiscal personnel has been conducted. WORKFORCE West Virginia is continuing to improve its budgetary process and is looking at various methods to control expenses; including, but not limited to, budget cutbacks, closing of offices, and the reorganization of various job responsibilities. In addition, a more comprehensive oversight program to monitor the seven subrecipient workforce investment boards is being developed in an effort to reduce nonallowable expenditures. Furthermore, a comprehensive review of the workforce investment board structure will be performed to determine if a more cost-effective structure that delivers the same level of client service can be implemented. In order to improve the fiscal condition, non-federal funds from the Legislature of the State will be requested. These funds will be utilized to repay liabilities due to the Federal government as a result of the review. In addition, funding will be sought to eliminate future anticipated deficits as estimated by management.

## **Enterprise Funds**

Workers' Compensation Fund deficit of \$1,810,318,000 is more fully discussed in Note 14, Risk Management.

West Virginia Prepaid College Plan (the Plan) has a net assets deficiency of approximately \$2.5 million as of June 30, 2007. This deficiency was largely caused by investment losses incurred in prior years and changes in prior year's estimates of future investment rates of return and tuition fee increases. The West Virginia College Prepaid Tuition and Savings Program's ability to pay obligations of the Prepaid Tuition Plan is dependent on long-term investment programs and adequate levels of future cash flows. In March 2003, the West Virginia Legislature closed the Plan to new enrollment until the Legislature authorizes it to reopen. The Plan will continue in existence and no current contracts will be affected by the closure. Contract holders are supposed to continue to pay any amounts due, and the Plan will continue to pay benefits due with available funds.

The Plan sought and received support from the State Legislature to support payment of plan benefits. In March 2003, the Legislature created the Prepaid Tuition Trust Escrow Account (the Escrow Account) to guarantee payment of plan contracts. Under the initial legislative action, the Escrow Account received transfers of up to \$500,000 each year there was an actuarially determined unfunded liability of the Plan. In the 2006 legislative session, the amount was increased to \$1,000,000. All earnings on the transferred funds will remain in the Escrow Account. In the event the Plan is unable to cover the amount of money needed to meet its current obligations, funds may be withdrawn from the Escrow Account to meet those obligations. The funds were invested and have had a net investment gain of \$186,236 for the four years ended June 30, 2007, leaving the account with a balance of \$2,392,685 at June 30, 2007. Because there was an actuarially determined unfunded liability of approximately \$2.5 million in the Plan as of June 30, 2007, an additional \$47,559 was transferred from the Fund to the Escrow Account on December 11, 2007, in accordance with the provisions enacted by the Legislature. Funds transferred or to be transferred into the Escrow Account do not affect the actuarial valuation of the Plan and are not included in the Plan's financial statements.

Management believes that the Plan will continue to have sufficient liquid resources to meet its obligations as they become due through June 30, 2008. The financial statements do not reflect any adjustments that might result should the plan to eliminate the net assets deficiency fail to be successful.

## **NOTE 4**

### **DEPOSITS AND INVESTMENTS**

#### **Deposits**

The State's deposit policy is described in West Virginia's State Code §12-2-2 and 3. All monies are to be maintained in the State accounting system or in an outside bank account approved by the State Treasurer's Office.

Custodial credit risk is risk associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the State would not be able to recover its deposits or collateralized securities that are in possession of the outside parties. According to State Code §12-1-5, the amount of funds on deposit in any depository financial institution in excess of the amount insured by the FDIC shall not exceed 90% of the value of collateral pledged by the depository institution. The State minimizes custodial credit risk by obtaining the required amount of collateral in the name of the State. The State Treasurer has statutory responsibility for the daily cash management of the State's agencies, departments, boards, and commissions.

#### Primary Government

At June 30, 2007, the reported amount of the primary government's deposits was \$152,007,000 and the bank balance was \$299,247,000. Of that bank balance, \$31,000 was uninsured and uncollateralized, \$1,638,000 was uninsured and collateralized with securities held by the pledging financial institution but not in the name of the State, and \$1,155,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the State.

#### Component Units

At June 30, 2007, the reported amount of the component units' deposits was \$179,462,000 and the bank balance was \$111,919,000. Of that bank balance, \$904,000 was uninsured and uncollateralized, \$4,782,000 was uninsured and collateralized with securities held by the pledging financial institution but not in the name of the State, and \$2,163,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the State.

## **Investments**

The West Virginia Legislature established the Board of Treasury Investments (BTI), effective July 8, 2005, to make short-term operating funds of the State more accessible to State government and to allow the IMB, which had managed the Consolidated Fund, to focus on the State's long-term trust investments. The BTI is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code, Chapter 12, Article 6C, West Virginia Treasury Investments Act. The Consolidated Fund provides for the investment of moneys not currently needed to fund State governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. The IMB provides fiscal administration and investment management services to designated State pension funds, the State's Workers' Compensation and Pneumoconiosis funds, and certain other State government funds. The State Treasurer's Office determines which funds to transfer to the IMB and BTI for investment in accordance with West Virginia Code, policies set by the IMB and BTI, and by provisions of bond indentures and trust agreements, when applicable.

The BTI is authorized by West Virginia Code Chapter 12, Article 6C, Section 9, to invest in United States government and agency obligations, commercial paper, corporate bonds, repurchase agreements, asset-backed securities, and investments in accordance with the Linked Deposit Program, which is a program using financial institutions in the state to reduce loan costs to small businesses by offsetting interest reductions on the loans with certificates of deposit, loans approved by the Legislature, and any other programs authorized by the Legislature. In addition to the restrictions in investment types, at no time shall more than 75% of the Consolidated Fund be invested in any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association and at no time shall more than 5% be invested in securities issued by a single private corporation or association. Further, no less than 15% percent of the Consolidated Fund shall be invested in any direct obligation of or obligation guaranteed by the United States government.

## **Investment Valuation**

The BTI is an investment vehicle of the State and its component units, all of which are government entities. The investments of the Cash Liquidity, Government Money Market, Loans, Municipal Bond Commission, and EDA pools are, as permissible under Government Accounting Standards Board (GASB) Statement No. 31, carried at amortized cost. The Cash Liquidity and Government Money Market pools are considered "2a7-like" investment pools and, as such, are reported at amortized cost, which approximates fair value. A 2a7-like pool operates in a manner consistent with the Securities and Exchange Commission (SEC) Rule 2a7 of the Investment Company Act of 1940, which allows money market

mutual funds to use amortized cost to report net assets. A 2a7-like pool is not necessarily registered with the SEC as an investment company, but it would qualify as a money market fund should it be registered. The specific GASB 31 exceptions to fair value reporting for the other pools are as follows:

| <u>Pool</u>               | <u>Exception</u>   |
|---------------------------|--|
| Loans                     | Loans receivable arising from real estate lending activities   |
| Municipal Bond Commission | Irrevocable trust meeting the requirements of a legal or in-substance defeasance                             |
| EDA Insurance             | Internal investment pool holding only money market investments with remaining maturities of one year or less |

The investments of the remaining pools are reported at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources. The BTI determines fair value at the end of each month. Investments in commingled investment pools are valued at the reported unit values of the individual funds. Commissions on the purchases of securities by the BTI are a component of the security price quoted by the seller and are included in the investment cost.

A more detailed discussion of the IMB's and BTI's investment pools can be found in the IMB's and BTI's annual reports. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>. A copy of the BTI's annual report can be obtained from the following address: 1900 Kanawha Boulevard East, Room E-122, Charleston, WV, 25305 or <http://www.wvbti.com>.

Except as specifically disclosed in this note, the State currently does not have specific overall policies addressing limitations on specific risk types, such as credit risk, custodial credit risk, concentration of credit risk, interest rate risk or foreign currency risk.

In addition to amounts invested with the IMB and BTI, certain governmental funds and discretely presented component units are permitted to invest bond proceeds with third-party trustees named in bond indentures. The governmental funds include the West Virginia Department of Transportation; Education, Arts, Sciences, and Tourism Fund; School Building Authority; West Virginia Infrastructure and Jobs Development Council; Tobacco Settlement Finance Authority; the Department of Health and Human Resources; the Department of Administration; Travel Management; West Virginia Investment Management Board; and the Smart 529 College Savings Plan. The following discretely presented component units have reported investments held with third-party trustees: Regional Jail Authority; Educational Broadcasting Authority; Jobs Investment Trust; Housing Development Fund; Parkways, Economic Development and Tourism Authority; WV State Rail Authority; Water Development Authority; Solid Waste Management Board; and Higher Education Fund. Assets of the Teachers' Defined Contribution Retirement System of the Consolidated Public Retirement Board are held by an outside third party.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government series (SLGS) securities ; and other investments. Other investments consist primarily of single family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

The State's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The IMB invests in derivative financial investments as authorized by its Board of Trustees. As of June 30, 2007, IMB had four types of derivative financial investments: Futures Contracts, Option Contracts, Foreign Exchange Forward Contracts, and Asset-Backed Securities. Additionally, the IMB is indirectly exposed to derivative risk through participation in mutual funds or other investment vehicles that use derivatives. Detailed derivative disclosures are not available for indirect derivative participation.

As a result of the recent matters affecting the global credit markets, many of the State's investments have experienced a decline in value subsequent to June 30, 2007. As previously mentioned, the State's investments are primarily recorded at fair value in the accompanying financial statements. Accordingly, the subsequent decline in fair value of investments is recognized in the period the change in fair value occurs.

#### Repurchase Agreements

In connection with transactions in repurchase agreements, it is the IMB's policy that its designated custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction at all times. If a seller defaults and the fair value of the collateral declines, realization of the collateral by the IMB may be delayed or limited.

The BTI uses only tri-party repurchase agreements. Under the terms of a tri-party repurchase agreement, the seller transfers collateral securities to an account of the BTI's manager/agent at the seller's custodian bank. This arrangement perfects the BTI's lien on the collateral and effectively protects the BTI from a default by the seller. The BTI requires sellers in repurchase transactions to pledge collateral of at least 102% of the cash borrowed from the BTI. If a seller defaults and the fair value of the collateral declines, realization of the collateral by the BTI may be delayed or limited.



### Foreign Currency

Amounts denominated in or expected to settle in foreign currencies are translated into United States dollars at exchange rates reported by Mellon Bank on the following basis:

- Market value of investment securities, other assets and liabilities - at the closing rate of exchange at the valuation date.
- Purchases and sales of investment securities, income and expenses - at the rate of exchange prevailing on the respective dates of such transactions.

The IMB isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from market prices of securities held.

Reported net realized foreign exchange gains and losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of foreign currencies, currency gains and losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded and the United States dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities including investments in securities at month end, resulting from changes in the exchange rate.

### Futures Contracts

A futures contract is an agreement between a buyer or a seller and the clearinghouse of a futures exchange in which the parties agree to buy or sell a commodity, financial instrument or index at a specified future date and price. The IMB invests in financial futures contracts in the Fixed Income Pool and the Non-Large Cap Domestic Equity Pool. Upon entering into a financial futures contract, the IMB is required to pledge to the broker an amount of cash, U.S. Government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Cash (variation margin) is received from or paid to the broker each day for the daily fluctuations of the underlying securities or index. The IMB records the cash received or paid for the variation margin as a realized gain or loss. Interest rate futures may be used to enhance portfolio yields, to hedge an existing position, or as an alternative investment of cash. Stock index futures may be used to provide immediate exposure to fluctuations in the market exposure of the stocks in the underlying index and to provide liquidity for cash flows. The market risk associated with holding

interest rate and stock index futures results from changes in the market value of the contractual positions due to changes in the value of the underlying instruments or indices. Hedging risk associated with these future contracts arise because the value of the futures contracts may not correlate perfectly with changes in the values of the underlying instruments or indices due to market distortions. IMB limits its exposure to these risks by establishing and monitoring limits on the type and total value of futures contracts that may be held. Other risks associated with futures contracts are liquidity risk and credit risk. Liquidity risk arises when there is insufficient trading in a particular futures contract. Credit risk arises from the potential inability of counterparties to meet the terms of the contracts. The IMB requires its managers to only utilize futures contracts that are traded on major exchanges or are executed with major dealers. The major exchanges assume the risk that the counterparty will not settle and generally require an initial margin deposit of cash or securities. The net change in the futures contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the statement of changes in net assets. As of June 30, 2007, the futures contracts had the following open positions (expressed in thousands):

|                         | <u>Value Upon</u><br><u>Entering Contract</u> | <u>Value at</u><br><u>June 30, 2007</u> | <u>Net Gain</u><br><u>or (Loss)</u> |
|-------------------------|---|---|-------------------------------------|
| Long-Non-Large Cap      |   |   |                                     |
| Domestic Equity Pool    | \$ 4,588                                      | \$ 4,531                                | \$ (57)                             |
| Long-Fixed Income Pool  | 454,212                                       | 449,430                                 | (4,782)                             |
| Short-Fixed Income Pool | (239,655)                                     | (238,149)                               | 1,506                               |

At June 30, 2007, the Non-Large Cap Domestic and the Fixed Income pools have pledged cash and securities valued at \$184,000 and \$2,515,000, respectively, to cover initial margin requirements on open futures contracts.

At June 30, 2007, the net variation margin receivable of \$15,000 in the Non-Large Cap Domestic pool and \$1,580,000 in the Fixed Income pool represent one day's settlement on open futures contracts.

### Option Contracts

IMB may purchase or write equity, bond, currency, or index option contracts that have recognized liquidity and are actively traded on major exchanges or are executed with major dealers. These option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security, or settle cash for an index option, underlying the contract at an agreed-upon price (strike price) during or at the conclusion of a specified period of time. Premiums paid upon the purchase of an option contract are recorded as an asset and subsequently adjusted to market value. Upon exercising a purchased option, a gain is

recorded equal to the difference between the market value of the underlying instrument and the strike price of the option, less premiums paid. If the option expires unexercised, a loss is recognized in the amount of the premiums paid for the option. Premiums received when option contracts are written are recorded as a liability and subsequently adjusted to market value. If a written option contract expires unexercised, a gain is recorded equal to the amount of the premiums received. The difference between the premiums received and the amount paid to prompt a closing transaction is also recorded as a gain or loss. When a written option is exercised, a loss is recorded equal to the difference between the market value of the underlying instrument and the strike price of the option, less premiums received. One of the IMB's fixed income managers uses written option contracts to enhance investment returns and reduce portfolio convexity when implied volatility is high. Purchased option contracts are used to increase portfolio convexity when implied volatility is low, to implement certain yield curve strategies, or to hedge sector exposure.

When writing put options, there is a risk that a loss may be incurred if the market price of the underlying instruments decreases and the option is exercised. This loss is determined by market conditions and cannot be specifically limited. The risk associated with writing call options is the loss of potential profit if the market price of the security increases and the option is exercised. Purchased put or call options bear the risk of loss of the premium paid if market conditions are not favorable to exercise the option. There may also be risk that the value of the option contract does not correlate perfectly with movements of the underlying instrument due to certain market distortions. To limit its exposure to these risks, the IMB has established limits on the value and use of option contracts. The IMB limits its exposure to credit risk by only buying or selling options traded on major exchanges, or executed with major dealers. There is a risk of the inability to enter into a closing transaction if a liquid secondary market does not exist. The IMB maintains sufficient levels of cash or cash equivalents to meet cash flow obligations. The net change in the option contract value is settled daily in cash with the exchange on which they were traded. Realized net gains or losses resulting from the settlements are included in the Statement of Changes in Net Assets. As of June 30, 2007, there were no open option contracts.

#### Foreign Exchange Forward Contracts

A foreign exchange forward contract is an agreement between two parties to exchange different currencies at a specified exchange rate at an agreed upon future date. The IMB's International Equity pools' investment managers enter into such contracts to hedge the assets and liabilities related to securities denominated in foreign currency. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. These contracts have relatively short durations and are valued at the prevailing market exchange rates at month-end. At June 30, 2007, the IMB was party to outstanding foreign exchange forward contracts to

purchase foreign currencies with contract amounts of \$20.506 million, collectively. Market values of these outstanding contracts were \$20.500 million resulting in net unrealized loss of approximately \$6,000. The unrealized gain or loss is reclassified to realized gain or loss when the contract expires and deposited at fair value.

#### Asset-Backed Securities

The IMB invests in various asset-backed securities, mortgage-backed securities, and structured corporate debt. The securities are reported at fair value. They are included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk. The IMB invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and market value of the underlying assets.

The BTI has certain pools that invest in various asset-backed securities and structured corporate debt. The securities are reported at fair value. The pools invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and market value of the underlying assets.

#### Security Loans

The IMB is authorized by statute and policy to participate in a securities lending program. The BTI Board has authorized the BTI securities lending program. Through an agent, Mellon Bank, the IMB and BTI loan securities to various brokers on a temporary basis. The transactions may be terminated at any time with proper notice. Each transaction for U.S. securities is secured by initial collateral of at least 102% of the market value of the securities loaned. For international securities, the collateral is at least 105% of the market value of the securities on loan. The BTI will accept only the following as collateral: cash; U.S. Treasury obligations or U.S. Government Agency obligations; and irrevocable letters of credit issued by banks rated A1 or P1, independent of borrowers. Cash collateral received is invested in the Mellon GSL DBT II Collateral Fund. Neither the BTI nor Mellon matches maturities of investments made with cash collateral to maturities of securities loaned.

Noncash collateral cannot be pledged or sold unless the borrower defaults. The Collateral Fund operates as a stable value fund and provides for liquidity to meet maturing loans. The IMB receives compensation in the form of loan premium fees and income from the investment of the cash collateral. Expenses related to the lending of securities are rebates paid by the lending agent to brokers and the lending agent's fees for its services. The income earned by the IMB is reported in the Statement of Operations as securities lending income. The agent fees and broker rebates are reported as expenses. The BTI receives a portion of the income from the investment of the collateral. The IMB and BTI continue to receive interest and dividends on the securities loaned. Gains or losses in the fair value of the securities loaned that may occur during the term of the loans are reflected in the financial statements of the various investment pools. Mellon indemnifies BTI against loss from borrower failure, which means that BTI will receive contractual settlement regardless of whether the borrower returns securities loaned. Mellon also indemnifies the BTI against operational errors. As of June 30, 2007, the IMB and BTI have no credit risk exposure to borrowers because the amounts the IMB and BTI owe the borrowers exceed the amounts the borrowers owe the IMB and BTI.

At June 30, 2007, the fair value of securities on loan and collateral held by the pools of the IMB and BTI are as follows (expressed in thousands). Of the collateral held, \$1,202 million was received as cash. The collateral received as cash is invested in the Mellon GSL DBT II Collateral Fund. For securities loaned at June 30, 2007, the BTI has no credit risk exposure to borrowers because the amount the BTI owe the borrowers exceeds the amounts the borrowers owe the BTI. There were no losses during the year resulting from borrower default, and there were no significant violations of legal or contractual provisions.

|                         | <u>Fair Value of<br/>Securities on Loan</u> | <u>Collateral Held</u> |
|-------------------------|---|------------------------|
| Large Cap Domestic      | \$ 1,499                                    | \$ 1,530               |
| Non-Large Cap Domestic  | 59,884                                      | 62,707                 |
| International Equity    | 206,248                                     | 219,478                |
| Short-Term Fixed Income | 360,404                                     | 367,791                |
| Fixed Income            | 300,313                                     | 305,714                |
| Cash Liquidity          | 385,861                                     | 393,186                |
| Government Money Market | 54,141                                      | 55,233                 |
| Enhanced Yield          | <u>84,045</u>                               | <u>85,576</u>          |
| Total                   | <u>\$1,452,395</u>                          | <u>\$1,491,215</u>     |

## Investment Pools

### Schedule of Participation

The following schedule details the participation in the various pools exclusive of those pools comprising the Consolidated Fund or Participant Directed Accounts (expressed in thousands). The participant balances below for the Fixed Income Pool do not include the approximately \$5 million dividend declared by the pool on the last day of the month and reinvested to the participant's accounts on the first day of the following month.

|  | <b>Large<br/>Cap<br/>Domestic</b> | <b>Non-Large<br/>Cap<br/>Domestic</b> | <b>International<br/>Qualified</b> | <b>International<br/>Nonqualified</b> |
|--|-----------------------------------|---------------------------------------|------------------------------------|---------------------------------------|
| <b>Primary Government:</b>                       |                                   |                                       |                                    |                                       |
| Revenue Shortfall Reserve Fund                   | \$ 32,624                         | \$ 19,784                             | \$ —                               | \$ 7,691                              |
| Revenue Shortfall Reserve Fund B                 | 69,921                            | 42,298                                | —                                  | 16,423                                |
| Workers' Compensation Old Fund                   | 85,903                            | 52,337                                | —                                  | 20,531                                |
| Workers' Compensation Self-Insured               | —                                 | —                                     | —                                  | —                                     |
| Workers' Compensation Uninsured                  | —                                 | —                                     | —                                  | —                                     |
| Pneumoconiosis                                   | 22,877                            | 13,913                                | —                                  | 5,388                                 |
| Wildlife Endowment Fund                          | 9,977                             | 6,049                                 | —                                  | 2,350                                 |
| Prepaid Tuition Trust Fund                       | 26,510                            | 16,074                                | —                                  | 6,262                                 |
| Prepaid Tuition Trust Escrow Fund                | —                                 | —                                     | —                                  | —                                     |
| Board of Risk & Insurance Management             | 9,971                             | 6,083                                 | —                                  | 2,418                                 |
| Public Employees' Insurance Agency               | <u>10,886</u>                     | <u>6,636</u>                          | <u>—</u>                           | <u>2,630</u>                          |
| Total Primary Government                         | <u>268,669</u>                    | <u>163,174</u>                        | <u>—</u>                           | <u>63,693</u>                         |
| Percentage of Ownership                          | 12.89%                            | 12.27%                                | —%                                 | 100%                                  |
| <b>Fiduciary Funds:</b>                          |                                   |                                       |                                    |                                       |
| Judges' Retirement System                        | 26,586                            | 15,972                                | 6,042                              | —                                     |
| Public Employees' Retirement System              | 975,720                           | 661,559                               | 302,749                            | —                                     |
| Teachers' Retirement System                      | 649,125                           | 390,047                               | 147,434                            | —                                     |
| Teachers' Employers Contribution                 | —                                 | —                                     | —                                  | —                                     |
| Public Safety Retirement System                  | 129,958                           | 78,391                                | 29,600                             | —                                     |
| State Police Retirement System                   | 10,154                            | 6,096                                 | 2,307                              | —                                     |
| West Virginia Deputy Sheriff's Retirement System | <u>23,627</u>                     | <u>14,209</u>                         | <u>5,373</u>                       | <u>—</u>                              |
| Total Fiduciary Funds                            | <u>1,815,170</u>                  | <u>1,166,274</u>                      | <u>493,505</u>                     | <u>—</u>                              |
| Percentage of Ownership                          | 87.11%                            | 87.73%                                | 100%                               | —%                                    |
| Total Amount                                     | <u>\$2,083,839</u>                | <u>\$1,329,448</u>                    | <u>\$493,505</u>                   | <u>\$63,693</u>                       |
| Percentage of Ownership                          | 100%                              | 100%                                  | 100%                               | 100%                                  |



| <b>International<br/>Equity</b> | <b>Short-Term<br/>Fixed<br/>Income</b> | <b>Fixed<br/>Income</b> | <b>Fixed<br/>Income<br/>Qualified</b> | <b>Fixed<br/>Income<br/>Nonqualified</b> | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---------------------------------|--|-------------------------|---------------------------------------|--|---|
| \$ 18,564                       | \$ 26                                  | \$ 30,182               | \$ —                                  | \$ 20,191                                | \$ 129,062                              |
| 39,688                          | 825                                    | 64,548                  | —                                     | 43,082                                   | 276,785                                 |
| 49,096                          | 43,712                                 | 239,080                 | —                                     | 159,922                                  | 650,581                                 |
| —                               | 2,998                                  | —                       | —                                     | —  | 2,998                                   |
| —                               | 7,216                                  | —                       | —                                     | —  | 7,216                                   |
| 13,050                          | 12,549                                 | 119,028                 | —                                     | 79,622                                   | 266,427                                 |
| 5,676                           | 68                                     | 9,229                   | —                                     | 6,174                                    | 39,523                                  |
| 15,083                          | 1,013                                  | 23,933                  | —                                     | 16,011                                   | 104,886                                 |
| —                               | —                                      | 1,432                   | —                                     | 958                                      | 2,390                                   |
| 5,708                           | 5                                      | 55,623                  | —                                     | 37,209                                   | 117,017                                 |
| <u>6,227</u>                    | <u>1</u>                               | <u>85,949</u>           | <u>—</u>                              | <u>57,495</u>                            | <u>169,824</u>                          |
| <u>153,092</u>                  | <u>68,413</u>                          | <u>629,004</u>          | <u>—</u>                              | <u>420,664</u>                           | <u>1,766,709</u>                        |
| 11.36%                          | 5.65%                                  | 26.90%                  | —%                                    | 100%                                     | 16.92%                                  |
| 14,984                          | 280                                    | 24,095                  | 16,119                                | —  | 104,078                                 |
| 722,429                         | 19,032                                 | 955,693                 | 649,981                               | —  | 4,287,163                               |
| 364,755                         | 1,117,057                              | 580,393                 | 388,255                               | —  | 3,637,066                               |
| —                               | 153                                    | —                       | —                                     | —  | 153                                     |
| 73,537                          | 3,929                                  | 118,081                 | 78,993                                | —  | 512,489                                 |
| 5,716                           | 564                                    | 9,286                   | 6,212                                 | —  | 40,335                                  |
| <u>13,328</u>                   | <u>481</u>                             | <u>21,541</u>           | <u>14,411</u>                         | <u>—</u>                                 | <u>92,970</u>                           |
| <u>1,194,749</u>                | <u>1,141,496</u>                       | <u>1,709,089</u>        | <u>1,153,971</u>                      | <u>—</u>                                 | <u>8,674,254</u>                        |
| 88.64%                          | 94.35%                                 | 73.10%                  | 100%                                  | —%                                       | 83.08%                                  |
| <u>\$1,347,841</u>              | <u>\$1,209,909</u>                     | <u>\$2,338,093</u>      | <u>\$1,153,971</u>                    | <u>\$420,664</u>                         | <u>\$10,440,963</u>                     |
| 100%                            | 100%                                   | 100%                    | 100%                                  | 100%                                     | 100%                                    |

### Investment Pool Descriptions

#### Large Cap Domestic

The pool's objective is to exceed, net of external management fees, the S&P 500 Stock Index over three-to five-year periods. Enhanced Investment Technologies, LLC and State Street Global Advisors manage assets of this pool. This pool holds equity securities of U.S. companies and money market funds which are rated AAA by Standard & Poor's and Aaa by Moody's.

#### Non-Large Cap Domestic

This pool invests in the equities of small-to mid-sized companies and its objective is to exceed, net of external investment fees, the Russell 2500 Index over three-to five-year periods. Assets of this pool are managed by Aronson + Johnson + Ortiz, LP, Brandywine Global Investment Management, LLC, Wellington Management Company, LLP, and Westfield Capital Management. This pool holds equity securities of U.S. companies and money market funds which are rated AAA by Standard & Poor's and Aaa by Moody's.

#### International Qualified

Funds of this pool are invested in Silchester International Investors' Value Equity Group Trust. This pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's Europe Australasia Far East (EAFE) Index by 200 basis points on an annualized basis over three-to five-year periods, net of external investment management fees. Only "qualified participants" (as defined by the *Internal Revenue Code*) may invest in this pool. This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2007, was \$493,748,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk.

#### International Nonqualified

Funds of this pool are invested in Silchester International Investors' Value Equity Trust. This pool is expected to produce investment returns that exceed the Morgan Stanley Capital International's EAFE Index by 200 basis points on an annualized basis over three-to five-year periods, net of external investment management fees. This pool exists for participants who are not "qualified" (as defined by the *Internal Revenue Code*). This pool holds an institutional mutual fund that invests in equities denominated in foreign currencies. The value of this investment at June 30, 2007, was \$63,696,000. This investment, although denominated in U.S. dollars, is exposed to foreign currency risk.

## International Equity

This pool invests in the equities of international companies. AXA Rosenberg Investment Management, LLC, Brandes Investment Partners, LLC, LSV Asset Management, and Wasatch Advisors Inc. manage assets of this pool. The objective of the International Equity pool is to exceed, net of external investment management fees, Morgan Stanley Capital International's All Country World Free Ex US Index over three—to five-year periods. This pool has both equity securities and cash that are denominated in foreign currencies and are exposed to foreign currency risks. The amounts at fair value (in U.S. dollars) of the securities and cash denominated in foreign currencies are as follows (expressed in thousands):

| <u>Currency</u>        | <u>Equity Securities</u> | <u>Cash</u>     | <u>Total</u>       |
|------------------------|--------------------------|-----------------|--------------------|
| Australian Dollar      | \$ 46,223                | \$ 511          | \$ 46,734          |
| Brazil Cruzeiros Real  | 46,000                   | —               | 46,000             |
| British Pound          | 140,476                  | 303             | 140,779            |
| Canadian Dollar        | 60,122                   | 2,566           | 62,688             |
| Danish Krone           | 3,851                    | 64              | 3,915              |
| Euro                   | 266,416                  | 3,822           | 270,238            |
| Hong Kong Dollar       | 79,937                   | 614             | 80,551             |
| Hungarian Forint       | 12,074                   | 114             | 12,188             |
| Indian Rupee           | 13,748                   | —               | 13,748             |
| Israeli Shekel         | 17,011                   | 25              | 17,036             |
| Japanese Yen           | 125,203                  | 2,100           | 127,303            |
| Malaysian Ringgit      | 8,347                    | 184             | 8,531              |
| Mexican New Peso       | 22,322                   | 51              | 22,373             |
| New Taiwan Dollar      | 68,583                   | 52              | 68,635             |
| New Zealand Dollar     | 3,476                    | 40              | 3,516              |
| Norwegian Krone        | 20,171                   | 54              | 20,225             |
| Philippine Peso        | 7,227                    | —               | 7,227              |
| Singapore Dollar       | 32,275                   | 511             | 32,786             |
| South African Rand     | 15,480                   | 16              | 15,496             |
| South Korean Won       | 97,467                   | 224             | 97,691             |
| Swedish Krona          | 26,487                   | 773             | 27,260             |
| Swiss Franc            | 49,567                   | 626             | 50,193             |
| Thailand Baht          | <u>15,602</u>            | <u>—</u>        | <u>15,602</u>      |
| Subtotal               | <u>1,178,065</u>         | <u>12,650</u>   | <u>1,190,715</u>   |
| United States Currency | <u>146,847</u>           | <u>—</u>        | <u>146,847</u>     |
| Total Assets           | <u>\$1,324,912</u>       | <u>\$12,650</u> | <u>\$1,337,562</u> |

### Short-Term Fixed Income

The main objective of this pool is to maintain sufficient liquidity to fund withdrawals by the participant plans and to invest cash contributions until such time as the money can be transferred to other asset classes without sustaining capital losses. JP Morgan Investment Advisors, Inc. manages this pool. For purposes of evaluating investment returns, net of external investment management fees, this pool is compared to Salomon ninety-day Treasury-bill index plus fifteen basis points.

#### *Credit Risk*

The IMB limits the exposure to credit risk in the Short-Term Fixed Income pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted-average credit ratings as of June 30, 2007, of the Short-Term Fixed Income pool's investments (expressed in thousands):

| <u>Security Type</u>    | <u>Credit Rating</u> |                | <u>Carrying<br/>Value<br/>Prior to<br/>Repurchase<br/>Collateral<br/>Included</u> | <u>Reclass<br/>Repurchase<br/>Agreement<br/>to Actual<br/>Investment<br/>Types</u> | <u>Carrying<br/>Value</u> | <u>Percent<br/>of<br/>Assets</u> |
|-------------------------|----------------------|----------------|---|--|---------------------------|----------------------------------|
|                         | <u>Moody's</u>       | <u>S&amp;P</u> |   |  |                           |                                  |
| Repurchase Agreements   | —                    | —              | \$ 570,709  | \$(570,709)  | \$ —                      | —%                               |
| U.S. Treasury Bills     | Aaa                  | AAA            | 186,905   | —  | 186,905                   | 15.3%                            |
| Commercial Paper        | P1                   | A-1            | 257,165   | —  | 257,165                   | 21.0%                            |
| Agency Discount Notes   | P1                   | A-1            | 194,864   | 205,477  | 400,341                   | 32.8%                            |
| Agency Bonds            | Aaa                  | AAA            | —   | 102,657  | 102,657                   | 8.4%                             |
| Money Market Funds      | Aaa                  | AAA            | 1   | —  | 1                         | 0.0%                             |
| U.S. Treasury Note      | Aaa                  | AAA            | —   | 274,590  | 274,590                   | 22.5%                            |
| Total Rated Investments |                      |                | <u>\$1,209,644</u>  | <u>\$ 12,015</u>   | <u>\$1,221,659</u>        | <u>100%</u>                      |

### *Interest Rate Risk*

The weighted-average maturity of the investments of the Short-Term Fixed Income pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted-average maturities (WAM) for the various asset types in the Short-Term pool (expressed in thousands):

| <u>Security Type</u>  | <u>Carrying Value</u> | <u>WAM (Days)</u> |
|-----------------------|-----------------------|-------------------|
| Repurchase Agreements | \$ 570,709            | 3                 |
| U.S. Treasury Bills   | 186,905               | 7                 |
| Commercial Paper      | 257,165               | 17                |
| Agency Discount Notes | 194,864               | 8                 |
| Money Market Funds    | <u>1</u>              | 1                 |
| Total Assets          | <u>\$1,209,644</u>    | 7                 |

### **Fixed Income**

The main objective of this core bond pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Western Asset Management Company manages this pool.

### *Credit Risk*

The IMB limits the exposure to credit risk in the Fixed Income pool by requiring all corporate bonds to be rated B or higher at the time of purchase. Convertible bonds must be rated Baa or higher by Standard & Poor's or BBB or higher by Moody's. The following table provides the weighted-average credit ratings as of June 30, 2007, of the asset types in the Fixed Income pool (expressed in thousands):

| <u>Security Type</u>                | <u>Credit Rating</u> |                | <u>Fair Value</u>  | <u>Percent of Assets</u> |
|-------------------------------------|----------------------|----------------|--------------------|--------------------------|
|                                     | <u>Moody's</u>       | <u>S&amp;P</u> |                    |                          |
| U.S. Treasury Bonds and Notes       | Aaa                  | AAA            | \$ 261,067         | 11.0%                    |
| Corporate Bonds and Notes           | Baa                  | BBB            | 407,966            | 17.2%                    |
| Agency Bonds                        | Aa                   | AA             | 38,485             | 1.6%                     |
| Corporate Asset Backed Securities   | Aaa                  | AAA            | 80,498             | 3.4%                     |
| Agency Mortgage Backed Securities   | Aaa                  | AAA            | 46,474             | 2.0%                     |
| Agency Discount Notes               | P1                   | A-1            | 2,515              | 0.1%                     |
| Money Market Funds                  | Aaa                  | AAA            | <u>27,039</u>      | <u>1.1%</u>              |
| Total Rated Investments             |                      |                | <u>864,044</u>     | <u>36.4%</u>             |
| Unrated: Commingled Investment Pool |                      |                | 1,512,437          | 63.7%                    |
| Interest Rate Swap                  |                      |                | <u>(1,887)</u>     | <u>(.1%)</u>             |
| Total Assets                        |                      |                | <u>\$2,374,594</u> | <u>100%</u>              |

**Interest Rate Risk**

The IMB monitors interest rate risk of the Fixed Income pool by assessing the modified duration of the investments in the pool. The following table provides the weighted-average modified duration for the various asset types in the Fixed Income pools (expressed in thousands):

| <b>Security Type</b>              | <b>Fair Value</b>  | <b>Modified Duration (years)</b> |
|-----------------------------------|--------------------|----------------------------------|
| U.S. Treasury Bonds and Notes     | \$ 261,067         | 6.6                              |
| Corporate Bonds and Notes         | 407,966            | 6.5                              |
| Agency Bonds                      | 38,485             | 4.8                              |
| Corporate Asset Backed Securities | 80,498             | 8.3                              |
| Agency Discount Notes             | 2,515              | 0.7                              |
| Agency Mortgage Backed Securities | 46,474             | 10.6                             |
| Money Market Funds                | 27,039             | 0.0                              |
| Commingled Investment Pools       | 1,512,437          | 4.7                              |
| Interest Rate Swap                | <u>(1,887)</u>     | —                                |
| Total Assets                      | <u>\$2,374,594</u> | 5.4                              |

The Fixed Income pool invests in commercial and residential mortgage-backed and asset-backed securities. The cash flows from these securities are based on the payment of the underlying collateral. The modified duration and yield to maturity of these securities are dependent on estimated prepayment assumptions that consider historical experience, market conditions, and other criteria. Actual prepayments may vary with changes in interest rates. Rising interest rates often result in a slower rate of prepayments while declining rates tend to lead to faster prepayments. As a result, the fair values of these securities are highly sensitive to interest rate changes. At June 30, 2007, the Fixed Income pool held \$126,971,613 of these securities. This represents approximately 5% of the value of the fixed income pools.

**Fixed Income Qualified**

The main objective of this core bond pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Barclays Global Investors manages this pool. Only “qualified participants” (as defined by the *Internal Revenue Code*) may invest in this pool.

This pool holds positions in institutional mutual funds with a combined value of \$1,154,047,650 at June 30, 2007, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.7 years.



### Fixed Income Nonqualified

The main objective of this core bond pool is to generate investment income, provide stability and diversification, but not at the expense of total return. Barclays Global Investors manages this pool. This pool exists for participants who are not “qualified” (as defined by the *Internal Revenue Code*).

This pool holds positions in institutional mutual funds with a combined value of \$420,696,395 at June 30, 2007, that invest in mortgage-backed securities and corporate bonds. The mutual funds are unrated. The weighted-average modified duration of the underlying securities is 5.7 years.

### Consolidated Fund

The Consolidated Fund is a statutory term for the collective investment of those monies currently needed to fund state governmental operations, participation by local governments, or those monies that are required by other statutory provisions to be invested in the Consolidated Fund. The following five investment pools comprise the Consolidated Fund.

### Cash Liquidity

This pool consists of the operating funds of the State, funds held in trust by State agencies, and funds from local governments who desire the opportunity to invest with the State. Its purpose is to provide for the investment of all surplus funds and supply the daily cash needs of the State. The pool is co-managed by JP Morgan Asset Management and UBS Global Asset Management.

### *Credit Risk*

The BTI limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated A-1 by Standard & Poor’s and P1 by Moody’s. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted-average credit ratings as of June 30, 2007, of the Cash Liquidity pool's investments (expressed in thousands):

| Security Type  | Credit Rating |     | Carrying Value     | Percent of Assets |
|--|---------------|-----|--------------------|-------------------|
|  | Moody's       | S&P |                    |                   |
| Commercial Paper   | P1            | A-1 | \$1,015,926        | 48.89%            |
| U.S. Treasury Bills  | Aaa           | AAA | 358,725            | 17.27%            |
| Corporate Bonds and Notes  | Aaa           | AAA | 98,999             | 4.76%             |
|  | Aa3           | AA  | 20,001             | 0.96%             |
|  | Aa3           | A   | 23,002             | 1.11%             |
|  | Aa2           | AA  | 15,000             | 0.72%             |
|  | Aa2           | A   | 27,000             | 1.30%             |
|  | Aa1           | AA  | 77,023             | 3.71%             |
| U.S. Agency Bonds  | Aaa           | AAA | 46,994             | 2.26%             |
| U.S. Agency Discount Notes   | P1            | A-1 | 21,655             | 1.04%             |
| Negotiable Certificate of Deposit                                      | P1            | A-1 | 76,500             | 3.68%             |
| Money Market Funds   | Aaa           | AAA | 185                | 0.01%             |
| Repurchase Agreements<br>(Underlying Securities):<br>U.S. Agency Notes | Aaa           | AAA | <u>246,821</u>     | <u>11.88%</u>     |
| Total Rated Investments  |               |     | 2,027,831          | 97.59%            |
| Unrated: Certificate of Deposit  |               |     | <u>50,000</u>      | <u>2.41%</u>      |
| Total Assets   |               |     | <u>\$2,077,831</u> | <u>100%</u>       |

### **Interest Rate Risk**

The overall weighted-average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the Cash Liquidity pool (expressed in thousands):

| Security Type              | Total Carrying Value | Primary Government | Investment Trust Funds | Agency Funds    | Component Units  | WAM (Days) |
|----------------------------|----------------------|--------------------|------------------------|-----------------|------------------|------------|
| Commercial Paper           | \$1,015,926          | \$ 822,189         | \$36,269               | \$ 9,550        | \$147,918        | 52         |
| U.S. Treasury Bills        | 358,725              | 290,316            | 12,806                 | 3,372           | 52,231           | 30         |
| Corporate Bonds and Notes  | 261,025              | 211,248            | 9,319                  | 2,454           | 38,004           | 58         |
| Certificates of Deposit    | 126,500              | 102,376            | 4,516                  | 1,189           | 18,419           | 76         |
| U.S. Agency Bonds          | 46,994               | 38,032             | 1,678                  | 442             | 6,842            | 156        |
| Repurchase Agreements      | 246,821              | 199,752            | 8,812                  | 2,320           | 35,937           | 2          |
| U.S. Agency Discount Notes | 21,655               | 17,525             | 773                    | 204             | 3,153            | 113        |
| Money Market Funds         | <u>185</u>           | <u>150</u>         | <u>7</u>               | <u>2</u>        | <u>26</u>        | 1          |
| Total Assets               | <u>\$2,077,831</u>   | <u>\$1,681,588</u> | <u>\$74,180</u>        | <u>\$19,533</u> | <u>\$302,530</u> | 48         |
| Percentage of Ownership    | 100%                 | 80.93%             | 3.57%                  | 0.94%           | 14.56%           |            |

## Government Money Market

This pool consists of investors who wish to invest in a pool that restricts its investments to U.S. Government Obligations, U.S. Government Agency Obligations, or repurchase agreements. The pool is managed by UBS Global Asset Management.

### Credit Risk

The BTI limits the exposure to credit risk in the Government Money Market pool by limiting the pool to U.S. Treasury issues, U.S. Government agency issues, money market funds investing in U.S. Treasury issues and U.S. Government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. Government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings as of June 30, 2007, of the Government Money Market Pool's investments (expressed in thousands):

| Security Type  | Credit Rating |     | Carrying Value   | Percent of Assets |
|--|---------------|-----|------------------|-------------------|
|  | Moody's       | S&P |                  |                   |
| U.S. Agency Bonds  | Aaa           | AAA | \$ 67,620        | 29.46%            |
| U.S. Treasury Bills  | Aaa           | AAA | 36,379           | 15.85%            |
| U.S. Agency Discount Notes   | P1            | A-1 | 74,143           | 32.30%            |
| Money Market Funds   | Aaa           | AAA | 9                | —%                |
| Repurchase Agreements<br>(Underlying Securities):<br>U.S. Agency Bonds | Aaa           | AAA | <u>51,400</u>    | <u>22.39%</u>     |
| Total Rated Investments  |               |     | <u>\$229,551</u> | <u>100%</u>       |

### Interest Rate Risk

The overall weighted-average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the Government Money Market Pool (expressed in thousands):

| Security Type              | Total Carrying Value | Primary Government | Investment Trust Funds | Component Units | WAM (Days) |
|----------------------------|----------------------|--------------------|------------------------|-----------------|------------|
| U.S. Agency Discount Notes | \$ 74,143            | \$11,789           | \$ 57,253              | \$ 5,101        | 106        |
| U.S. Agency Bonds          | 67,620               | 10,752             | 52,216                 | 4,652           | 60         |
| Repurchase Agreements      | 51,400               | 8,172              | 39,691                 | 3,537           | 2          |
| U.S. Treasury Bills        | 36,379               | 5,785              | 28,092                 | 2,502           | 29         |
| Money Market Funds         | <u>9</u>             | <u>1</u>           | <u>7</u>               | <u>1</u>        | 1          |
| Total Assets               | <u>\$229,551</u>     | <u>\$36,499</u>    | <u>\$177,259</u>       | <u>\$15,793</u> | 49         |
| Percentage of Ownership    | 100%                 | 15.90%             | 77.22%                 | 6.88%           |            |

## Enhanced Yield

This pool consists of the operating funds of the State that are not immediately needed to fund the State's liquidity requirements. The pool is managed by Standish Mellon Asset Management.

### *Credit Risk*

The BTI limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A-by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's.

The following table provides information on the credit ratings as of June 30, 2007, of the Enhanced Yield Pool's investments (expressed in thousands):

| Security Type  | Credit Rating |     | Fair Value       | Percent of Assets |
|--|---------------|-----|------------------|-------------------|
|  | Moody's       | S&P |                  |                   |
| Corporate Asset Backed Securities                                      | P1            | A-1 | \$ 42,122        | 18.40%            |
| Corporate Bonds and Notes  | Aaa           | AAA | 1,667            | 0.73%             |
|  | Aa3           | AA  | 7,857            | 3.43%             |
|  | Aa3           | A   | 3,905            | 1.70%             |
|  | Aa2           | AA  | 950              | 0.41%             |
|  | Aa2           | A   | 2,177            | 0.95%             |
|  | Aa1           | AA  | 6,431            | 2.81%             |
|  | A3            | A   | 6,958            | 3.04%             |
|  | A2            | AA  | 747              | 0.33%             |
|  | A2            | A   | 8,188            | 3.58%             |
|  | A1            | AA  | 3,034            | 1.32%             |
|  | A1            | A   | 10,706           | 4.68%             |
| U.S. Agency Bonds  | Aaa           | AAA | 46,075           | 20.13%            |
| U.S. Treasury Bonds and Notes  | Aaa           | AAA | 55,877           | 24.41%            |
| U.S. Agency Mortgage Backed Securities                                 | Aaa           | AAA | 11,741           | 5.13%             |
| Repurchase Agreements<br>(Underlying Securities):<br>U.S. Agency Notes | Aaa           | AAA | <u>20,485</u>    | <u>8.95%</u>      |
| Total Rated Investments  |               |     | <u>\$228,920</u> | <u>100%</u>       |

### *Interest Rate Risk*

The overall weighted-average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities can not exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted-average maturities (WAM) for the various asset types in the Enhanced Yield Pool (expressed in thousands):

| Security Type                          | Total Carrying Value | Primary Government | Investment Trust Funds | Component Units | WAM (Days) |
|--|----------------------|--------------------|------------------------|-----------------|------------|
| Corporate Bonds and Notes              | \$ 52,620            | \$ 51,531          | \$21                   | \$1,068         | 557        |
| U.S. Agency Bonds                      | 46,075               | 45,121             | 18                     | 936             | 927        |
| U.S. Treasury Bonds and Notes          | 55,877               | 54,720             | 22                     | 1,135           | 1092       |
| Corporate Asset Backed Securities      | 42,122               | 41,250             | 17                     | 855             | 421        |
| U.S. Agency Mortgage Backed Securities | 11,741               | 11,498             | 5                      | 238             | 814        |
| Repurchase Agreements                  | <u>20,485</u>        | <u>20,061</u>      | <u>8</u>               | <u>416</u>      | <u>2</u>   |
| Total Assets                           | <u>\$228,920</u>     | <u>\$224,181</u>   | <u>\$91</u>            | <u>\$4,648</u>  | 700        |
| Percentage of Ownership                | 100%                 | 97.93%             | 0.04%                  | 2.03%           |            |

## Loss Amortization

This pool was created to account for those participant claims on the general operating funds of the State that exceeded the underlying assets of the other pools. This excess of participant claims on net assets over underlying assets occurred as a result of the distribution of earnings to participants in various BTI investment pools, principally the Unrestricted Pool (predecessor to the Cash Liquidity Pool), in excess of the true investment income experience of the pools, principally in 1987 and 1988.

This pool holds a U.S. Treasury strip valued at \$154,277,000 that matures on August 15, 2011. The BTI's investment policy does not specifically address maturity restrictions as a means of managing its exposure to fair value losses in this pool arising from increasing interest rates. However, it is the intent of the BTI to hold this security to maturity (expressed in thousands):

| <u>Security Type</u>       | <u>Fair Value</u> | <u>Interest Rate Risk</u> |            |             |                     |
|----------------------------|-------------------|---------------------------|------------|-------------|---------------------|
|                            |                   | <u>Less than 1</u>        | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> |
| <b>Primary Government:</b> |                   |                           |            |             |                     |
| U.S. Treasury Strip        | \$154,277         | \$—                       | \$—        | \$154,277   | \$—                 |

## Loans

This pool is comprised of loans made by the State. The \$1 unit price is utilized for accounting purposes only. The State is the sole participant in this pool. This pool primarily holds intergovernmental loans and an interest in a money market mutual fund in the amount of \$9,256,000 with a weighted-average maturity of one day which is rated AAA by Standard & Poor's and Aaa by Moody's. The loans are not rated by any nationally recognized statistical rating organization; however, as there is the potential for defaults, they are exposed to credit risk. For financial statement purposes the intergovernmental loans are reflected in the Advances to Component Units line on the Statement of Net Assets. The BTI addresses the credit risk by evaluating the need for and establishing a reserve for uncollectible loans.

The BTI also maintains pools for individual State agencies with specific investment needs. These pools are collectively referred to as Participant Directed Accounts, and include the following: Municipal Bond Commission, Lottery Defeasance, School Fund, Economic Development Authority Insurance (EDA Insurance), and EDA – American Woodmark (EDA – AW) and Department of Highways. Each agency is the sole owner of the investments in its pool and is responsible for the investment decisions in accordance with the legal restrictions applicable to those assets. The BTI serves as custodian of these pools and has no discretion over investment and financial decisions made for them.

## Municipal Bond Commission

This account only holds securities issued by the U.S. Treasury or government agencies. The securities are purchased with specific maturities timed to match bond interest or principal payments.

The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in the Municipal Bond Commission Account arising from increasing interest rates. The following table provides information on the weighted-average maturities for the various asset types in the Municipal Bond Commission Account (expressed in thousands):

| <u>Security Type</u>                  | <u>Carrying Value</u> | <u>WAM (Days)</u> |
|---------------------------------------|-----------------------|-------------------|
| U.S. Treasury Bills                   | \$ 457                | 74                |
| U.S. Treasury Strips                  | 7,600                 | 1,600             |
| U.S. Treasury Bonds and Notes         | 5,843                 | 3,648             |
| State and Local Government Securities | <u>31,919</u>         | 484               |
| Total Assets                          | <u>\$45,819</u>       | 1,068             |

## Lottery Defeasance

The Lottery Defeasance Account primarily holds U.S. Treasury securities and U.S. agency bonds and notes with maturities timed to match lottery winner payouts. It is the intent to hold these securities to maturity. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in the Lottery Defeasance Account arising from increasing interest rates. The following table provides information on the weighted-average maturities for the various asset types in the Lottery Defeasance Account (expressed in thousands):

| <u>Security Type</u>        | <u>Carrying Value</u> | <u>WAM (Days)</u> |
|-----------------------------|-----------------------|-------------------|
| U.S. Treasury Bills         | \$ 51                 | 90                |
| U.S. Agency Bonds and Notes | 252                   | 224               |
| Money Market Funds          | <u>1</u>              | 1                 |
| Total Assets                | <u>\$304</u>          | 201               |

## School Fund

The School Fund Account holds an interest in a money market mutual fund valued at \$1,753,000 with a weighted-average maturity of one day. The mutual fund is rated AAA by Standard & Poor's and Aaa by Moody's as of June 30, 2007, (expressed in thousands):

| <u>Security Type</u>            | <u>Fair Value</u> | <u>Interest Rate Risk</u> |            |             |                     |
|---------------------------------|-------------------|---------------------------|------------|-------------|---------------------|
|                                 |                   | <u>Less than 1</u>        | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> |
| <b>Governmental Activities:</b> |                   |                           |            |             |                     |
| Money Market                    | \$1,753           | \$1,753                   | \$—        | \$—         | \$—                 |

## EDA Insurance

This account holds a U.S. Treasury bill in the amount of \$450,000 that matured on December 20, 2007. The Economic Development Authority's investment policy limits this account to holding only U.S. Treasury securities with six-month maturities (expressed in thousands):

| <u>Security Type</u>              | <u>Fair Value</u> | <u>Interest Rate Risk</u> |            |             |                     |
|-----------------------------------|-------------------|---------------------------|------------|-------------|---------------------|
|                                   |                   | <u>Less than 1</u>        | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> |
| <b>Component Unit Activities:</b> |                   |                           |            |             |                     |
| U.S. Treasury Bill                | \$450             | \$450                     | \$—        | \$—         | \$—                 |

## EDA-AW

This account holds a U.S. Treasury bond valued at \$1,605,000 that matures on August 15, 2023. The Economic Development Authority's investment policy limits this account to holding only U.S. Treasury securities with twenty-year maturities at time of purchase (expressed in thousands):

| <u>Security Type</u>              | <u>Fair Value</u> | <u>Interest Rate Risk</u> |            |             |                     |
|-----------------------------------|-------------------|---------------------------|------------|-------------|---------------------|
|                                   |                   | <u>Less than 1</u>        | <u>1-5</u> | <u>6-10</u> | <u>More than 10</u> |
| <b>Component Unit Activities:</b> |                   |                           |            |             |                     |
| U.S. Treasury Bond                | \$1,605           | \$—                       | \$—        | \$—         | \$1,605             |



## Department of Highways

*Credit Risk*

The Department of Highways account provides for the investment of proceeds from the issuance and sale of \$90 million Surface Transportation Improvements Special Obligation Notes. The following table provides information on the credit ratings of the Department of Highways Account investments as of June 30, 2007, (expressed in thousands):

| <u>Security Type</u>   | <u>Credit Rating</u> |                | <u>Carrying Value</u> | <u>Percent of Assets</u> |
|--|----------------------|----------------|-----------------------|--------------------------|
|  | <u>Moody's</u>       | <u>S&amp;P</u> |                       |                          |
| Money Market Funds   | Aaa                  | AAA            | 11                    | .02%                     |
| Repurchase Agreements<br>(Underlying Securities):<br>U.S. Agency Mortgage<br>Backed Securities | Aaa                  | AAA            | <u>56,994</u>         | <u>99.98%</u>            |
| Total Rated Investments  |                      |                | <u>\$57,005</u>       | <u>100%</u>              |

*Interest Rate Risk*

The following table provides information on the weighted-average maturities for the various asset types in the Department of Highways Account:

| <u>Security Type</u>    | <u>Total<br/>Primary Government<br/>Carrying Value</u> | <u>WAM<br/>(Days)</u> |
|-------------------------|--|-----------------------|
| Repurchase Agreements   | \$56,994   | 610                   |
| Money Market Funds      | <u>11</u>  | 1                     |
| Total Assets            | <u>\$57,005</u>  | 610                   |
| Percentage of Ownership | 100%   |                       |

This schedule reconciles disclosed investment values to net asset values of the pools as reflected in the accompanying financial statements, at IMB and BTI at June 30, 2007, (expressed in thousands):

| <u>Pool Name</u>           | <u>Disclosed<br/>Value</u> | <u>Pool<br/>Receivables/<br/>(Payables)</u> | <u>Net<br/>Asset<br/>Values</u> |
|----------------------------|----------------------------|---|---------------------------------|
| Large Cap Domestic         | \$ 2,079,517               | \$ 4,322                                    | \$ 2,083,839                    |
| Non-Large Cap Domestic     | 1,327,739                  | 1,709                                       | 1,329,448                       |
| International Qualified    | 493,748                    | (243)                                       | 493,505                         |
| International Nonqualified | 63,696                     | (3)   | 63,693                          |
| International Equity       | 1,324,912                  | 22,929                                      | 1,347,841                       |
| Short-Term Fixed Income    | 1,209,644                  | 256   | 1,209,900                       |
| Fixed Income               | 2,374,594                  | (36,501)                                    | 2,338,093                       |
| Fixed Income Qualified     | 1,154,048                  | (77)  | 1,153,971                       |
| Fixed Income Nonqualified  | 420,696                    | (32)  | 420,664                         |
| Cash Liquidity             | 2,077,831                  | (6,437)                                     | 2,071,394                       |
| Government Money Market    | 229,551                    | 366   | 229,917                         |
| Enhanced Yield             | 228,920                    | 807   | 229,727                         |
| Loss Amortization          | 154,277                    | —   | 154,277                         |
| Loans                      | 129,840                    | 347   | 130,187                         |
| Municipal Bond Commission  | 45,819                     | 446   | 46,265                          |
| Lottery Defeasance         | 304                        | —   | 304                             |
| School Fund                | 1,753                      | 7   | 1,760                           |
| EDA Insurance              | 450                        | 1   | 451                             |
| EDA —AW                    | 1,605                      | 34  | 1,639                           |
| Department of Highways     | <u>57,005</u>              | <u>246</u>                                  | <u>57,251</u>                   |
| Total Pooled Investments   | <u>13,375,949</u>          | <u>(11,823)</u>                             | <u>13,364,126</u>               |
| Less EDA                   | 127,470                    | —   | 127,470                         |
| Less MBC                   | 45,819                     | 446   | 46,265                          |
| Less CD's                  | <u>126,500</u>             | <u>—</u>                                    | <u>126,500</u>                  |
| Total for Disclosure       | <u>\$13,076,160</u>        | <u>\$ (12,269)</u>                          | <u>\$13,063,891</u>             |

## Outside Investments

In addition to the amounts invested with the IMB above, certain funds are permitted to invest bond proceeds with a third-party trustee named in the bond indenture. The following information relates to these outside investments.

## West Virginia

### Credit Risk

The following table provides information on the credit ratings of the State's third-party trustee investments as of June 30, 2007, (expressed in thousands):

| Security Type                                   | Fair Value         | Credit Rating |         |
|---|--------------------|---------------|---------|
|   |                    | S&P           | Moody's |
| <b>Primary Government:</b>                      |                    |               |         |
| Guaranteed Investment Contracts                 | \$ 15,444          | AA            | Aa      |
|   | 677                | AA            | Aa2     |
|   | 125,439            | AA-           | Aa2     |
|   | 1,087              | AA            | Aa3     |
|   | 24,748             | AAA           | Aaa     |
| Money Market/Mutual Funds                       | 4,643              | AAA           | Aaa     |
|   | 163,125            | AAAm          | Aaa     |
|   | 24,033             | AAAm          | Unrated |
|   | 1,282              | AAAm-G        | Aaa     |
|   | 200                | Unrated       | Unrated |
| Mutual Bond Funds                               | 194,010            | AAAm          | Aaa     |
| Repurchase Agreements                           | 6,000              | AAA           | Aaa     |
| Taxable State Bonds                             | 71,181             | BBB, BBB-     | Baa3    |
| U.S. Government and Agency Obligations          | 27,486             | AAA           | Aaa     |
|   | 4,198              | AAA           | AAA     |
|   | <u>93,651</u>      | AAAm          | Aaa     |
|   | <u>\$ 757,204</u>  |               |         |
| <b>Pension and Private Purpose Trust Funds:</b> |                    |               |         |
| Money Market/Mutual Funds                       | <u>\$1,959,665</u> | Unrated       | Unrated |
| <b>Component Units:</b>                         |                    |               |         |
| Common and Preferred Stocks                     | \$ 114,818         | Unrated       | Unrated |
| Corporate Bonds                                 | 7,015              | AA+           | AA+     |
|   | 4,795              | AAA           | Aaa     |
|   | 1,071              | BBB           | Baa     |
|   | 34,295             | Unrated       | Unrated |
| Guaranteed Investment Contracts                 | 38,436             | AAA           | Aaa     |
|   | 46,539             | Unrated       | Unrated |
| Money Market/Mutual Funds                       | 4,556              | AAA           | Aaa     |
|   | 40,823             | AAAm          | Aaa     |
|   | 565                | AAAm-G        | Aaa     |
|   | 86                 | Unrated       | Aaa     |
|   | 41,077             | Unrated       | Unrated |
| Mortgages Held for Investment                   | 23,189             | Unrated       | Unrated |
| Other Investments                               | 34,604             | Unrated       | Unrated |
| Repurchase Agreements                           | 15,626             | AAA           | Aaa     |
|   | 111,305            | AAA           | aaa     |
|   | 24,087             | Unrated       | Unrated |
| U.S. Government and Agency Obligations          | 12,129             | AA+           | Unrated |
|   | 76,976             | AAA           | aaa     |
|   | 22,867             | AAA           | Aaa     |
|   | 1,597              | AAA           | AAA     |
|   | 6,044              | AAA           | Aaa     |
|   | <u>33,697</u>      | Unrated       | Unrated |
|   | <u>\$ 696,197</u>  |               |         |

*Concentration of Credit Risk*

As of June 30, 2007, the State had investment balances with the following issuers which are greater than or equal to 5% of the respective third-party trustee investment balance (expressed in thousands):

| <u>Security Type</u>                 | <u>Fair Value</u> | <u>Issuer</u>   | <u>Percentage of Concentration</u> |
|--------------------------------------|-------------------|---|------------------------------------|
| <b>Primary Government:</b>           |                   |   |                                    |
| Guaranteed Investment Contracts      | \$132,284         | Citizens Bank of Pennsylvania   | 17.5%                              |
| Money Market                         | 61,935            | Federated Prime Obligations   | 8.2%                               |
| Taxable State Bonds                  | 71,181            | WV Tobacco Settlement Finance Authority   | 9.4%                               |
| U.S. Government & Agency Obligations | 61,516            | Federated Government Obligations<br>Institutional Service Shares-Fund #395  | 8.1%                               |
| <b>Component Units:</b>              |                   |   |                                    |
| Guaranteed Investment Contracts      | 38,436            | FSA Capital Management Services LLC   | 5.5%                               |
|                                      | 46,539            | United Bank, Inc./Citigroup Global Markets, Inc.  | 6.7%                               |
| Corporate Bonds                      | 42,381            | \$84,635 of the \$107,574 is invested by the<br>Foundations at the Higher Education<br>campuses which are reported under FASB<br>and the information is not available | 6.1%                               |
| Common and Preferred Stocks          | 107,574           | \$84,635 of the \$107,574 is invested by the<br>Foundations at the Higher Education<br>campuses which are reported under FASB<br>and the information is not available | 15.5%                              |
| U.S. Government & Agency Obligations | 37,583            | \$20,511 of the \$37,583 is invested by the<br>Foundations at the Higher Education<br>campuses which are reported under FASB<br>and the information is not available  | 5.4%                               |
|                                      | 72,155            | Federal Agency Obligations<br>(Fannie Mae, Fannie Mae MBS pools,<br>Federated Farm Credit Bank, Freddie<br>Mac, Federal Home Loan Bank)                               | 11.1%                              |
| Repurchase Agreements                | 111,305           | Federal Agency Obligations<br>(Fannie Mae, Ginnie Mae, Freddie<br>Mac Securities)   | 16.0%                              |

## West Virginia

### Interest Rate Risk

The following table provides information on the interest rate risk of the State's third-party trustee investments (expressed in thousands):

| Security Type                          | Fair Value       | Interest Rate Risk |                |               |               |
|--|------------------|--------------------|----------------|---------------|---------------|
|  |                  | Less than 1        | 1-5            | 6-10          | More than 10  |
| Primary Government:                    |                  |                    |                |               |               |
| U.S. Government & Agency Obligations   | \$ 125,335       | \$ 123,891         | \$ 1,444       | \$ —          | \$ —          |
| Repurchase Agreements                  | 6,000            | —                  | —              | 6,000         | —             |
| Guaranteed Investment Contracts        | 167,395          | 1,764              | 140,883        | 5,758         | 18,990        |
| Money Market/Mutual Funds              | 193,283          | 193,283            | —              | —             | —             |
| Mutual Bond Funds                      | 194,010          | 194,010            | —              | —             | —             |
| Taxable State Bonds                    | <u>71,181</u>    | <u>—</u>           | <u>—</u>       | <u>—</u>      | <u>71,181</u> |
| Total Primary Government:              | <u>757,204</u>   | <u>512,948</u>     | <u>142,327</u> | <u>11,758</u> | <u>90,171</u> |
| Pension & Private Purpose Trust Funds: |                  |                    |                |               |               |
| Money Market/Mutual Funds              | <u>1,959,665</u> | <u>1,959,665</u>   | <u>—</u>       | <u>—</u>      | <u>—</u>      |
| Component Units:                       |                  |                    |                |               |               |
| U.S. Government & Agency Obligations   | 153,310          | 52,786             | 30,396         | 16,169        | 53,959        |
| Corporate Bonds                        | 47,176           | 35,666             | 10,178         | 723           | 609           |
| Common and Preferred Stocks            | 114,818          | 107,574            | —              | —             | 7,244         |
| Repurchase Agreements                  | 151,018          | 116,817            | 17,870         | 13,885        | 2,446         |
| Guaranteed Investment Contracts        | 84,975           | 46,539             | 38,436         | —             | —             |
| Money Market/Mutual Funds              | 87,107           | 87,107             | —              | —             | —             |
| Mortgages held for Investment          | 23,189           | —                  | —              | —             | 23,189        |
| Other Investments                      | <u>34,604</u>    | <u>34,604</u>      | <u>—</u>       | <u>—</u>      | <u>—</u>      |
| Total Component Units                  | <u>696,197</u>   | <u>481,093</u>     | <u>96,880</u>  | <u>30,777</u> | <u>87,447</u> |
| Total Outside Investments              | \$3,413,066      | \$2,953,706        | \$239,207      | \$42,535      | \$177,618     |

## Reconciliation to Financial Statements

The following schedule reconciles the amount disclosed as deposits and investments included in this footnote to cash and cash equivalents, investments and restricted cash and investments in the Statement of Net Assets at June 30, 2007, (expressed in thousands):

### Deposits:

|   |                   |
|---|-------------------|
| Cash and Cash Equivalents as Reported on the Statement of Net Assets            | \$ 4,054,970      |
| Cash and Cash Equivalents as Reported on the Statement of Fiduciary Net Assets  | 315,647           |
| Add:  |                   |
| Restricted Cash and Cash Equivalents as Reported on the Statement of Net Assets | 243,132           |
| Less:   |                   |
| Cash Equivalents and Restricted Cash Disclosed as Investments                   | (4,026,110)       |
| Cash with U.S. Treasury for Unemployment Programs                               | <u>(256,170)</u>  |
| Reported Value of Deposits as Disclosed in this Footnote                        | <u>\$ 331,469</u> |

### Investments:

|   |                     |
|---|---------------------|
| Investments as Reported on the Statement of Net Assets            | \$ 1,646,439        |
| Investments as Reported on the Statement of Fiduciary Net Assets  | 10,637,327          |
| Add:  |                     |
| Restricted Investments as Reported on the Statement of Net Assets | 170,872             |
| Cash Equivalents and Restricted Cash Disclosed as Investments     | 4,026,110           |
| Accrued Interest Disclosed as Investments                         | <u>(3,791)</u>      |
| Reported Value of Investments as Disclosed in this Footnote       | <u>\$16,476,957</u> |

## NOTE 5

### RECEIVABLES

(Expressed in Thousands)

#### Receivables

Receivables at June 30, 2007, consisted of the following:

|  | Governmental Funds |                  |   |   |                       |                                      |
|--|--------------------|------------------|---|---|-----------------------|--------------------------------------|
|  | General            | Transportation   | West Virginia<br>Infrastructure<br>and Jobs<br>Development<br>Council | Tobacco<br>Settlement<br>Finance<br>Authority | Other<br>Governmental | Total<br>Governmental<br>Receivables |
| Taxes  | \$366,896          | \$ 74,562        | \$ —  | \$ —  | \$ —                  | \$ 441,458                           |
| Accounts   | 107,122            | 87,642           | 24  | 34,941  | 11,699                | 241,428                              |
| Loans  | 27,584             | —                | 350,289   | —   | —                     | 377,873                              |
| Surplus Note                                     | —                  | —                | —   | —   | —                     | —                                    |
| Accrued Interest                                 | 1,408              | —                | 1,461   | 1   | 1,777                 | 4,647                                |
| Total Receivables                                | 503,010            | 162,204          | 351,774   | 34,942  | 13,476                | 1,065,406                            |
| Allowance for Doubtful Accounts                  | (41,187)           | —                | —   | —   | (1,934)               | (43,121)                             |
| Receivables, Net                                 | <u>\$461,823</u>   | <u>\$162,204</u> | <u>\$351,774</u>  | <u>\$34,942</u>                               | <u>\$11,542</u>       | <u>\$1,022,285</u>                   |
| As reported on the Fund<br>Financial Statements: |                    |                  |   |   |                       |                                      |
| Current Receivables                              | \$461,823          | \$162,204        | \$351,774   | \$34,942                                      | \$11,542              | \$1,022,285                          |
| Noncurrent Receivables, Net                      | —                  | —                | —   | —   | —                     | —                                    |
| Receivables, Net                                 | <u>\$461,823</u>   | <u>\$162,204</u> | <u>\$351,774</u>  | <u>\$34,942</u>                               | <u>\$11,542</u>       | <u>\$1,022,285</u>                   |

|  | Fiduciary Funds           |                                       |                 |                 |
|--|---------------------------|---------------------------------------|-----------------|-----------------|
|  | Pension<br>Trust<br>Funds | Retiree<br>Health<br>Benefit<br>Trust | SMART<br>529    | Agency<br>Funds |
| Accounts   | \$ —                      | \$5,191                               | \$ —            | \$2,500         |
| Loans  | 8,688                     | —                                     | —               | —               |
| Leases   | —                         | —                                     | —               | —               |
| Contributions                                    | 35,278                    | 4,385                                 | 12,097          | —               |
| Accrued Interest                                 | —                         | —                                     | —               | 102             |
| Other  | —                         | —                                     | —               | —               |
| Total Receivables                                | 43,966                    | 9,576                                 | 12,097          | 2,602           |
| Allowance for Doubtful Accounts                  | —                         | (727)                                 | —               | —               |
| Receivables, Net                                 | <u>\$43,966</u>           | <u>\$8,849</u>                        | <u>\$12,097</u> | <u>\$2,602</u>  |
| As reported on the Fund<br>Financial Statements: |                           |                                       |                 |                 |
| Current Receivables, Net                         | \$43,966                  | \$8,849                               | \$12,097        | \$2,602         |
| Noncurrent Receivables, Net                      | —                         | —                                     | —               | —               |
| Receivables, Net                                 | <u>\$43,966</u>           | <u>\$8,849</u>                        | <u>\$12,097</u> | <u>\$2,602</u>  |



## Enterprise Funds

| West<br>Virginia<br>Lottery | Water<br>Pollution<br>Control<br>Revolving<br>Fund | Workers'<br>Compensation | Unemployment<br>Compensation | Public<br>Employees'<br>Insurance<br>Agency | Board of<br>Risk and<br>Insurance<br>Management | Other<br>Enterprise | Total<br>Enterprise | Internal<br>Service<br>Funds |
|-----------------------------|--|--------------------------|------------------------------|---|---|---------------------|---------------------|------------------------------|
| \$ —                        | \$ —   | \$ —                     | \$ —                         | \$ —  | \$ —  | \$ —                | \$ —                | \$ —                         |
| 33,094                      | 319  | 14,414                   | 34,619                       | 19,909                                      | 1,763   | 5,358               | 109,476             | 4,487                        |
| —                           | 386,825  | —                        | —                            | —   | —   | 47,648              | 434,473             | —                            |
| —                           | —  | 185,000                  | —                            | —   | —   | —                   | 185,000             | —                            |
| —                           | —  | —                        | —                            | —   | —   | 20                  | 20                  | 19                           |
| 33,094                      | 387,144  | 199,414                  | 34,619                       | 19,909                                      | 1,763   | 53,026              | 728,969             | 4,506                        |
| —                           | —  | —                        | —                            | (4,070)                                     | (34)  | —                   | (4,104)             | —                            |
| <u>\$33,094</u>             | <u>\$387,144</u>                                   | <u>\$199,414</u>         | <u>\$34,619</u>              | <u>\$15,839</u>                             | <u>\$1,729</u>                                  | <u>\$53,026</u>     | <u>\$724,865</u>    | <u>\$4,506</u>               |
|                             |  |                          |                              |   |   |                     |                     |                              |
| \$33,094                    | \$ 20,581  | \$ 14,414                | \$34,619                     | \$15,839                                    | \$1,729   | \$ 3,345            | \$123,621           | \$4,506                      |
| —                           | <u>366,563</u>                                     | <u>185,000</u>           | —                            | —   | —   | <u>49,681</u>       | <u>601,244</u>      | —                            |
| <u>\$33,094</u>             | <u>\$387,144</u>                                   | <u>\$199,414</u>         | <u>\$34,619</u>              | <u>\$15,839</u>                             | <u>\$1,729</u>                                  | <u>\$53,026</u>     | <u>\$724,865</u>    | <u>\$4,506</u>               |

## Discretely Presented Component Units

| Economic<br>Development<br>Authority | Housing<br>Development<br>Fund | Parkways,<br>Economic<br>Development &<br>Tourism<br>Authority | Water<br>Development<br>Authority | Higher<br>Education | Regional<br>Jail | Other<br>Component<br>Units | Total<br>Discretely<br>Presented<br>Component<br>Units |
|--------------------------------------|--------------------------------|--|-----------------------------------|---------------------|------------------|-----------------------------|--|
| \$ —                                 | \$927,839                      | \$1,588  | \$245,109                         | \$ 75,950           | \$20,261         | \$ 924                      | \$1,271,671  |
| 151,429                              | 52,041                         | —  | 16,534                            | 64,321              | —                | 1,754                       | 286,079  |
| 17,255                               | —                              | —  | —                                 | —                   | —                | —                           | 17,255   |
| —                                    | —                              | —  | —                                 | —                   | —                | —                           | —  |
| 2,853                                | 4,900                          | 329  | —                                 | —                   | —                | —                           | 8,082  |
| —                                    | —                              | —  | —                                 | —                   | —                | —                           | —  |
| 171,537                              | 984,780                        | 1,917  | 261,643                           | 140,271             | 20,261           | 2,678                       | 1,583,087  |
| (5,800)                              | (44,958)                       | —  | —                                 | (20,843)            | —                | —                           | (71,601)   |
| <u>\$165,737</u>                     | <u>\$939,822</u>               | <u>\$1,917</u>   | <u>\$261,643</u>                  | <u>\$119,428</u>    | <u>\$20,261</u>  | <u>\$2,678</u>              | <u>\$1,511,486</u>                                     |
|                                      |                                |  |                                   |                     |                  |                             |  |
| \$ 10,207                            | \$ 6,089                       | \$1,917  | \$ 8,893                          | \$ 70,777           | \$20,261         | \$2,678                     | 120,822  |
| <u>155,530</u>                       | <u>933,733</u>                 | —  | <u>252,750</u>                    | <u>48,651</u>       | —                | —                           | <u>1,390,664</u>                                       |
| <u>\$165,737</u>                     | <u>\$939,822</u>               | <u>\$1,917</u>   | <u>\$261,643</u>                  | <u>\$119,428</u>    | <u>\$20,261</u>  | <u>\$2,678</u>              | <u>\$1,511,486</u>                                     |

**Taxes Receivable**

Taxes receivable at June 30, 2007, consisted of the following:

|                            | <b>Governmental Funds</b> |                              |                     |
|----------------------------|---------------------------|------------------------------|---------------------|
|                            | <b><u>General</u></b>     | <b><u>Transportation</u></b> | <b><u>Total</u></b> |
| Taxes Receivable:          |                           |                              |                     |
| Consumer Sales             | \$105,451                 | \$ —                         | \$105,451           |
| Personal Income            | 115,303                   | —                            | 115,303             |
| Severance                  | 54,657                    | —                            | 54,657              |
| Business and Occupation    | 13,818                    | —                            | 13,818              |
| Automobile Privilege Taxes | —                         | 25,713                       | 25,713              |
| Gasoline Excise            | —                         | 45,448                       | 45,448              |
| Registration Fees          | —                         | 3,401                        | 3,401               |
| Insurance                  | 33,433                    | —                            | 33,433              |
| Corporate Net Income       | 25,794                    | —                            | 25,794              |
| Other                      | <u>18,440</u>             | <u>—</u>                     | <u>18,440</u>       |
| Total                      | <u>\$366,896</u>          | <u>\$74,562</u>              | <u>\$441,458</u>    |

**Leases Receivable**

The Economic Development Authority has entered into long-term direct financing lease agreements with commercial entities for land, buildings, and equipment. A schedule of future lease amounts due to the Economic Development Authority is as follows:

| <b><u>Year Ended June 30</u></b>          | <b><u>Direct Financing Leases<br/>Amounts Due</u></b> |
|---|---|
| 2008                                      | \$ 2,093  |
| 2009                                      | 2,093   |
| 2010                                      | 7,002   |
| 2011                                      | 662   |
| 2012                                      | 662   |
| 2013-2026                                 | <u>7,946</u>  |
| Total Minimum Amount Due                  | 20,458  |
| Less Amount Representing Interest         | <u>(3,203)</u>  |
| Present Value of Minimum Lease Amount Due | <u>\$17,255</u>                                       |

### **Physicians' Mutual Insurance Company Loan**

Pursuant to the West Virginia Physicians' Mutual Insurance Company (WVPMIC) Act, the Legislature authorized the loan of \$24 million from the West Virginia Tobacco Medical Trust Fund, now the Revenue Shortfall Reserve Fund - Part B, solely for the company's use as initial capital and surplus. A noncurrent receivable for the \$24 million is recorded in the general fund. There is a low interest rate on the loan computed of simple interest of 1.425%, which began accruing on January 1, 2005. The principal amount shall be paid on or before July 31, 2034. However, no payment of accrued interest and/or repayment of principal shall be due, payable, or paid by the WVPMIC, in whole or in part unless certain stability criteria are met. To date, the WVPMIC has made interest payments and one principal payment of \$8 million after year end. The Insurance Commission is providing specific insurance taxes as repayment to the Revenue Shortfall Reserve Fund - Part B, until such time as the WVPMIC is able to repay the loan.

### **BrickStreet Mutual Insurance Company Surplus Note**

In accordance with the provisions set forth in §23-2C-24 (a) of the West Virginia Code, a surplus note agreement between the State of West Virginia and the newly formed employers' mutual insurance company, BrickStreet Mutual Insurance Company, has been established as of January 1, 2006. For value received, BrickStreet Mutual Insurance Company will repay the State of West Virginia the principle sum of \$200 million dollars, plus interest and reasonable costs of collection of any overdue payment by the maturity date of the note, which is June 30, 2016. One payment has been made to date of \$15 million. The remaining noncurrent receivable of \$185 million is included in the financial statements of the Workers' Compensation Fund. The purpose of the surplus note is to provide initial surplus to the issuer until such time as adequate retained surplus is earned or alternative non-governmental sources of capital are available to allow the issuer to operate as a commercially sound, independent provider of workers' compensation insurance in the State of West Virginia, within a competitive environment. BrickStreet Mutual Insurance Company may repay all or any part of the principal, subject to the approval of the Insurance Commissioner, at any time without penalty or premium.

From the effective date of the note until the earlier of (1) the date on which the note is repaid in full; or (2) January 1, 2009, the note shall bear interest at one and one-half percent (1.5%). If the note has not been repaid by January 1, 2009, then from January 1, 2009, until the date on which the note is repaid in full, unpaid amounts under the note shall bear interest at a fluctuating rate per annum that is equal to the Prime Rate of interest for the period in question. The repayment of the principal of the surplus note shall be subject to the prior approval of the Insurance Commissioner. See Note 14 for more information on the privatization of the workers' compensation function.

## NOTE 6

### INTERFUND BALANCES

The following table details the interfund balances and activity as of and for the year ended June 30, 2007, (expressed in thousands):

| Due To                                     | Due From     |                |   |                   |
|--|--------------|----------------|---|-------------------|
|  | Governmental |                |   |                   |
|  | General      | Transportation | West Virginia<br>Infrastructure<br>and Jobs<br>Development<br>Council | Other<br>Nonmajor |
| Governmental Funds:                        |              |                |   |                   |
| General                                    | \$ —         | \$ 425         | \$—   | \$ 91             |
| Transportation                             | 60           | —              | —   | 192               |
| Tobacco Settlement Finance Authority       | 790,090      | —              | —   | —                 |
| Other Nonmajor Governmental                | 197          | 3              | —   | —                 |
| Total Governmental Funds                   | 790,347      | 428            | —   | 283               |
| Proprietary Funds:                         |              |                |   |                   |
| West Virginia Lottery                      | —            | —              | —   | —                 |
| Water Pollution Control Revolving Fund     | —            | —              | —   | 28                |
| Unemployment Compensation                  | 187          | 33             | —   | 15                |
| Public Employees' Insurance Agency         | 4,836        | 1,305          | —   | 403               |
| Board of Risk and Insurance Management     | 340          | —              | —   | —                 |
| Other Nonmajor Proprietary                 | 24           | —              | —   | —                 |
| Internal Service Funds                     | 5,535        | 474            | —   | 699               |
| Total Proprietary Funds                    | 10,922       | 1,812          | —   | 1,145             |
| Fiduciary Funds                            | —            | 63             | —   | —                 |
| Discretely Presented Component Units:      |              |                |   |                   |
| Major:                                     |              |                |   |                   |
| Parkways & Economic Development            | 6            | —              | —   | —                 |
| Water Development Authority                | —            | —              | 98  | —                 |
| Higher Education                           | 11,704       | 42             | —   | 40                |
| Nonmajor:                                  |              |                |   |                   |
| State Rail Authority                       | 709          | —              | —   | —                 |
| Educational Broadcasting                   | 50           | —              | —   | —                 |
| Total Discretely Presented Component Units | 12,469       | 42             | 98  | 40                |
| Total                                      | \$813,738    | \$2,345        | \$98  | \$1,468           |

The general fund Due to Other Funds includes \$5,535,000 to the Internal Service Funds which is made up of \$198,000 for building rent, \$4,031,000 for computer services, \$615,000 for telecommunications, and \$691,000 for vehicle rentals; \$4,836,000 to Public Employees' Insurance Agency for health insurance, and \$11,704,000 to Higher Education for educational programs.

| Due From                    |   |                                  |   |   |                   |                              |                           |   |                    |
|-----------------------------|---|----------------------------------|---|---|-------------------|------------------------------|---------------------------|---|--------------------|
| Proprietary                 |   |                                  |   |   |                   |                              |                           |   |                    |
| West<br>Virginia<br>Lottery | Water<br>Pollution<br>Revolving<br>Fund | Workers'<br>Compensation<br>Fund | Public<br>Employees'<br>Insurance<br>Agency | Board of<br>Risk and<br>Insurance<br>Management | Other<br>Nonmajor | Internal<br>Service<br>Funds | Pension<br>Trust<br>Funds | Discretely<br>Presented<br>Component<br>Units | Total              |
| \$179,184                   | \$ —                                    | \$304                            | \$108,280                                   | \$ 6  | \$11              | \$ 18                        | \$ —                      | \$ 537  | \$ 288,856         |
| —                           | —                                       | —                                | 376   | —   | —                 | —                            | —                         | 43  | 671                |
| —                           | —                                       | —                                | —   | —   | —                 | —                            | —                         | —   | 790,090            |
| <u>1,000</u>                | <u>17</u>                               | <u>—</u>                         | <u>177</u>                                  | <u>—</u>  | <u>—</u>          | <u>—</u>                     | <u>—</u>                  | <u>—</u>                                      | <u>1,394</u>       |
| <u>180,184</u>              | <u>17</u>                               | <u>304</u>                       | <u>108,833</u>                              | <u>6</u>  | <u>11</u>         | <u>18</u>                    | <u>—</u>                  | <u>580</u>                                    | <u>1,081,011</u>   |
| —                           | —                                       | —                                | 1   | —   | —                 | —                            | —                         | —   | 1                  |
| —                           | —                                       | —                                | —   | —   | —                 | —                            | —                         | —   | 28                 |
| 4                           | —                                       | 5                                | —   | —   | 3                 | —                            | —                         | 120   | 367                |
| —                           | —                                       | 215                              | —   | —   | —                 | 85                           | 2                         | 426   | 7,272              |
| —                           | —                                       | —                                | —   | —   | —                 | —                            | —                         | 323   | 663                |
| —                           | —                                       | —                                | —   | —   | —                 | —                            | —                         | —   | 24                 |
| <u>150</u>                  | <u>—</u>                                | <u>—</u>                         | <u>359</u>                                  | <u>9</u>  | <u>20</u>         | <u>119</u>                   | <u>58</u>                 | <u>235</u>                                    | <u>7,658</u>       |
| <u>154</u>                  | <u>—</u>                                | <u>220</u>                       | <u>360</u>                                  | <u>9</u>  | <u>23</u>         | <u>204</u>                   | <u>60</u>                 | <u>1,104</u>                                  | <u>16,013</u>      |
| <u>—</u>                    | <u>—</u>                                | <u>—</u>                         | <u>4,497</u>                                | <u>—</u>  | <u>—</u>          | <u>—</u>                     | <u>—</u>                  | <u>153</u>                                    | <u>4,713</u>       |
| —                           | —                                       | —                                | —   | —   | —                 | —                            | —                         | —   | 6                  |
| —                           | 20                                      | —                                | —   | —   | —                 | —                            | —                         | —   | 118                |
| —                           | —                                       | 3                                | 208   | —   | —                 | 17                           | —                         | —   | 12,014             |
| —                           | —                                       | —                                | —   | —   | —                 | —                            | —                         | —   | 709                |
| <u>25</u>                   | <u>—</u>                                | <u>—</u>                         | <u>—</u>                                    | <u>—</u>  | <u>—</u>          | <u>—</u>                     | <u>—</u>                  | <u>—</u>                                      | <u>75</u>          |
| <u>25</u>                   | <u>20</u>                               | <u>3</u>                         | <u>208</u>                                  | <u>—</u>  | <u>—</u>          | <u>17</u>                    | <u>—</u>                  | <u>—</u>                                      | <u>12,922</u>      |
| <u>\$180,363</u>            | <u>\$37</u>                             | <u>\$527</u>                     | <u>\$113,898</u>                            | <u>\$15</u>                                     | <u>\$34</u>       | <u>\$239</u>                 | <u>\$60</u>               | <u>\$1,837</u>                                | <u>\$1,114,659</u> |

The Tobacco Settlement Finance Authority records a due from the general fund for the deferred revenue related to the sale of MSA tobacco revenues. The general fund Due from Other Funds includes \$108,280,000 from Public Employees' Insurance Agency from excess reserves. Of the \$179,184,000 due from the Lottery, \$134,632,000 was unappropriated surplus funds. Other amounts due from the Lottery were appropriated by the Legislature subsequent to year-end and include amounts due to Higher Education (\$6 million), Senior Services (\$15 million), the School Construction Fund (\$9 million), and various other small amounts.

## NOTE 7

### INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2007, consisted of the following (expressed in thousands):

| Transfers To   | Transfers From   |                |   |   |                   |
|--|------------------|----------------|---|---|-------------------|
|  | Governmental     |                |   |   |                   |
|  | General          | Transportation | West Virginia<br>Infrastructure<br>and Jobs<br>Development<br>Council | Tobacco<br>Settlement<br>Finance<br>Authority | Other<br>Nonmajor |
| Governmental Funds:  |                  |                |   |   |                   |
| General  | \$ —             | \$ —           | \$ —  | \$17,454                                      | \$ 4,123          |
| Transportation   | 3,541            | —              | —   | —   | —                 |
| West Virginia Infrastructure<br>and Jobs Development Council | —                | —              | —   | —   | 34,653            |
| Other Nonmajor Governmental                                  | <u>132,697</u>   | <u>5,726</u>   | <u>—</u>  | <u>—</u>                                      | <u>3,056</u>      |
| Total Governmental Funds                                     | <u>136,238</u>   | <u>5,726</u>   | <u>—</u>  | <u>17,454</u>                                 | <u>41,832</u>     |
| Proprietary Funds:   |                  |                |   |   |                   |
| Water Pollution Control Revolving Fund                       | —                | —              | 2,730   | —   | —                 |
| Workers' Compensation Fund                                   | —                | —              | —   | —   | 1,736             |
| PEIA   | 6,700            | —              | —   | —   | —                 |
| Other Nonmajor Proprietary                                   | 8,270            | —              | 1,657   | —   | 48                |
| Internal Service Funds                                       | <u>—</u>         | <u>—</u>       | <u>—</u>  | <u>—</u>                                      | <u>251</u>        |
| Total Proprietary Funds                                      | <u>14,970</u>    | <u>—</u>       | <u>4,387</u>  | <u>—</u>                                      | <u>2,035</u>      |
| Total  | <u>\$151,208</u> | <u>\$5,726</u> | <u>\$4,387</u>  | <u>\$17,454</u>                               | <u>\$43,867</u>   |

The deferred charge of the amortization of the future tobacco settlement revenue of the Tobacco Settlement Finance Authority, resulted in a transfer of \$17.5 million to the General Fund. The West Virginia Lottery transferred, as mandated by State Code, \$19 million to the School Building Authority for capital grants and \$18 million for bond debt service, \$40 million to the West Virginia Infrastructure and Jobs Development Council, and \$363.7 million to the general fund. The general fund transferred \$23.3 million to the School Building Authority for bond debt service and \$32.2 million for capital grants. The general fund also transferred \$24 million to the West Virginia Infrastructure and Jobs Development Council and \$18.8 million to the Economic Development Project Fund for bond debt service. The PEIA's reserve levels in fiscal year 2007 were beyond the amount allowed by State Code, requiring a transfer of \$80.5 million to the General Fund (see Note 13 for additional discussion). All other transfers are made to finance various programs as authorized by the Legislature.

| Transfers From                       |                                      |                 |                           |                                       |                  |
|--------------------------------------|--------------------------------------|-----------------|---------------------------|---------------------------------------|------------------|
| Proprietary                          |                                      |                 |                           |                                       |                  |
| <u>West<br/>Virginia<br/>Lottery</u> | <u>Unemployment<br/>Compensation</u> | <u>PEIA</u>     | <u>Other<br/>Nonmajor</u> | <u>Internal<br/>Service<br/>Funds</u> | <u>Total</u>     |
| \$363,745                            | \$ —                                 | \$80,487        | \$13,216                  | \$1,518                               | \$480,543        |
| —                                    | —                                    | —               | —                         | —                                     | 3,541            |
| 40,000                               | —                                    | —               | —                         | —                                     | 74,653           |
| <u>46,999</u>                        | <u>2,000</u>                         | <u>—</u>        | <u>—</u>                  | <u>—</u>                              | <u>190,478</u>   |
| <u>450,744</u>                       | <u>2,000</u>                         | <u>80,487</u>   | <u>13,216</u>             | <u>1,518</u>                          | <u>749,215</u>   |
| —                                    | —                                    | —               | —                         | —                                     | 2,730            |
| 11,000                               | —                                    | —               | —                         | —                                     | 12,736           |
| —                                    | —                                    | —               | —                         | —                                     | 6,700            |
| —                                    | —                                    | —               | —                         | —                                     | 9,975            |
| <u>13,899</u>                        | <u>—</u>                             | <u>—</u>        | <u>—</u>                  | <u>—</u>                              | <u>14,150</u>    |
| <u>24,899</u>                        | <u>—</u>                             | <u>—</u>        | <u>—</u>                  | <u>—</u>                              | <u>46,291</u>    |
| <u>\$475,643</u>                     | <u>\$2,000</u>                       | <u>\$80,487</u> | <u>\$13,216</u>           | <u>\$1,518</u>                        | <u>\$795,506</u> |



**NOTE 8****RESTRICTED ASSETS**

Restricted assets are held by special revenue funds, enterprise funds, internal service funds, and discretely presented component units, primarily for the repayment of future long-term obligations and benefits payments. The restricted assets, composed of cash, investments, and other similar assets at June 30, 2007, are as follows (expressed in thousands):

|  | <u>Cash</u>      | <u>Investments</u> | <u>Other</u>       | <u>Totals</u>      |
|--|------------------|--------------------|--------------------|--------------------|
| Special Revenue:   |                  |                    |                    |                    |
| Environmental Programs                                   | \$ 577           | \$ —               | \$ —               | \$ 577             |
| Transportation   | <u>50</u>        | <u>—</u>           | <u>—</u>           | <u>50</u>          |
|  | <u>627</u>       | <u>—</u>           | <u>—</u>           | <u>627</u>         |
| Enterprise:  |                  |                    |                    |                    |
| West Virginia Lottery                                    | 30,367           | 304                | —                  | 30,671             |
| Board of Risk and Insurance Management                   | <u>9,337</u>     | <u>23,481</u>      | <u>116,208</u>     | <u>149,026</u>     |
|  | <u>39,704</u>    | <u>23,785</u>      | <u>116,208</u>     | <u>179,697</u>     |
| Internal Service:  |                  |                    |                    |                    |
| State Building Fund                                      | 42,860           | —                  | —                  | 42,860             |
| Travel Management  | <u>463</u>       | <u>—</u>           | <u>—</u>           | <u>463</u>         |
|  | <u>43,323</u>    | <u>—</u>           | <u>—</u>           | <u>43,323</u>      |
| Discretely Presented Component Units:                    |                  |                    |                    |                    |
| Economic Development Authority                           | 12,607           | —                  | —                  | 12,607             |
| Housing Development Fund                                 | 102,678          | 104,799            | 897,890            | 1,105,367          |
| Parkways, Economic Development,<br>and Tourism Authority | 11,072           | 26,662             | —                  | 37,734             |
| Water Development Authority                              | 2,033            | 15,626             | 245,100            | 262,759            |
| Regional Jail Authority                                  | 325              | —                  | —                  | 325                |
| Educational Broadcasting Authority                       | —                | —                  | 386                | 386                |
| West Virginia State Rail Authority                       | 565              | —                  | —                  | 565                |
| Solid Waste Management Board                             | 1,662            | —                  | 2,724              | 4,386              |
| Racing Commission  | <u>28,536</u>    | <u>—</u>           | <u>—</u>           | <u>28,536</u>      |
|  | <u>159,478</u>   | <u>147,087</u>     | <u>1,146,100</u>   | <u>1,452,665</u>   |
| Total  | <u>\$243,132</u> | <u>\$170,872</u>   | <u>\$1,262,308</u> | <u>\$1,676,312</u> |

**Special Revenue Funds**

Environmental Programs has restricted cash held in trust “to protect human health and the environment, in accordance with the terms of the State and Federal Consent Decrees...” The Department of Transportation’s cash is restricted per the trust indenture for debt service payments.

## **Enterprise Funds**

The West Virginia Lottery's assets are restricted to pay the deferred prize claims awarded on an annuity basis and for the design and construction of a new Lottery building. The Board of Risk and Insurance Management's (BRIM) cash and investment assets include funds to provide mine subsidence, medical malpractice, and general liability insurance coverage. BRIM's other restricted assets of \$115.8 million are advance deposits with insurance companies and \$372,000 in receivables.

## **Internal Service Funds**

The State Building Fund's restricted assets are held in trust primarily for the costs of asbestos removal and other capital projects. Travel Management Fund's restricted assets are held in escrow for capital outlay.

## **Discretely Presented Component Units**

The Economic Development Authority's assets are restricted to provide assurance that adequate amounts will be available to repay notes secured by the real estate being leased and to guarantee portions of certain loans made for economic development purposes. The Housing Development Fund's cash and cash equivalents assets are restricted on behalf of mortgagors and for payments collected on mortgages for which the fund acts as servicer only. The investments are primarily collateralized repurchase/investment agreements and United States government and agency obligations with maturities greater than 90 days to meet the requirements of bond resolutions. Other restricted assets for the Housing Development Fund of \$898 million include federal program receivables and foreclosed properties from defaulted federal program loans. The Parkways, Economic Development, and Tourism Authority's assets are restricted to be used for construction, turnpike maintenance and operation, and debt service. The cash and investment assets of the Water Development Authority are restricted as part of applicable bond covenants and the other restricted assets are \$245 million restricted for revenue bonds receivable net of unamortized discount and accrued interest receivable. The Regional Jail and Correctional Facility Authority's assets are restricted because of a safekeeping arrangement with inmates. The Educational Broadcasting Authority's (EBA) other restricted assets are in a charitable trust allowing the use of part of the interest to benefit the EBA. The West Virginia State Rail Authority's assets are restricted for debt service payments. The Solid Waste Management Board's assets are restricted because their use is limited by applicable repayment agreements. The West Virginia Racing Commission's cash is restricted for the unclaimed winning tickets and other trust holdings which are mandated by West Virginia State Code.

## NOTE 9

### CAPITAL ASSETS

#### Governmental Activities

(Expressed in Thousands)

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>  | <u>Decreases</u>   | <u>Ending<br/>Balance</u> |
|--|------------------------------|-------------------|--------------------|---------------------------|
| Governmental Activities:                       |                              |                   |                    |                           |
| Capital Assets, Not Being Depreciated:         |                              |                   |                    |                           |
| Land   | \$ 898,627                   | \$ 38,822         | \$ (447)           | \$ 937,002                |
| Construction in Progress                       | <u>1,249,836</u>             | <u>453,957</u>    | <u>(375,061)</u>   | <u>1,328,732</u>          |
| Total Capital Assets, Not<br>Being Depreciated | <u>2,148,463</u>             | <u>492,779</u>    | <u>(375,508)</u>   | <u>2,265,734</u>          |
| Capital Assets, Being Depreciated:             |                              |                   |                    |                           |
| Buildings and Improvements                     | 856,125                      | 51,298            | (1,247)            | 906,176                   |
| Equipment                                      | 331,138                      | 42,917            | (31,535)           | 342,520                   |
| Infrastructure                                 | 8,175,048                    | 344,865           | —                  | 8,519,913                 |
| Library Holdings                               | 15,134                       | 73                | (26)               | 15,181                    |
| Land Improvements                              | <u>12,961</u>                | <u>259</u>        | <u>—</u>           | <u>13,220</u>             |
| Total Capital Assets,<br>Being Depreciated     | <u>9,390,406</u>             | <u>439,412</u>    | <u>(32,808)</u>    | <u>9,797,010</u>          |
| Less Accumulated Depreciation for:             |                              |                   |                    |                           |
| Buildings and Improvements                     | (308,335)                    | (23,804)          | 323                | (331,816)                 |
| Equipment                                      | (240,410)                    | (27,038)          | 25,585             | (241,863)                 |
| Infrastructure                                 | (3,344,422)                  | (258,595)         | —                  | (3,603,017)               |
| Library Holdings                               | (14,798)                     | (205)             | —                  | (15,003)                  |
| Land Improvements                              | <u>(5,019)</u>               | <u>(715)</u>      | <u>—</u>           | <u>(5,734)</u>            |
| Total Accumulated Depreciation                 | <u>(3,912,984)</u>           | <u>(310,357)</u>  | <u>25,908</u>      | <u>(4,197,433)</u>        |
| Total Capital Assets Being Depreciated, Net    | <u>5,477,422</u>             | <u>129,055</u>    | <u>(6,900)</u>     | <u>5,599,577</u>          |
| Governmental Activities Capital Assets, Net    | <u>\$ 7,625,885</u>          | <u>\$ 621,834</u> | <u>\$(382,408)</u> | <u>\$ 7,865,311</u>       |

Depreciation expense was charged to functions as follows:

|   |                  |
|---|------------------|
| Legislative   | \$ 15            |
| Judicial  | 409              |
| Executive   | 646              |
| Administration  | 14,702           |
| Commerce  | 3,893            |
| Environmental Protection                              | 373              |
| Employment Programs                                   | 221              |
| Education   | 773              |
| Health and Human Resources                            | 2,855            |
| Military Affairs and Public Safety                    | 7,525            |
| Revenue   | 599              |
| Transportation  | 277,959          |
| Regulatory Boards and Commissions                     | <u>387</u>       |
| Total Governmental Activities<br>Depreciation Expense | <u>\$310,357</u> |

## Business-type Activities

(Expressed in Thousands)

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Business-type Activities:                      |                              |                  |                  |                           |
| Capital Assets, Not Being Depreciated:         |                              |                  |                  |                           |
| Land   | \$ 611                       | \$ —             | \$ —             | \$ 611                    |
| Construction-in-Progress                       | —                            | 443              | —                | 443                       |
| Total Capital Assets, Not<br>Being Depreciated | <u>611</u>                   | <u>443</u>       | <u>—</u>         | <u>1,054</u>              |
| Capital Assets, Being Depreciated:             |                              |                  |                  |                           |
| Buildings and Improvements                     | 2,762                        | —                | —                | 2,762                     |
| Equipment                                      | <u>12,372</u>                | <u>1,565</u>     | <u>(132)</u>     | <u>13,805</u>             |
| Total Capital Assets, Being Depreciated        | <u>15,134</u>                | <u>1,565</u>     | <u>(132)</u>     | <u>16,567</u>             |
| Less Accumulated Depreciation for:             |                              |                  |                  |                           |
| Buildings and Improvements                     | (1,391)                      | (129)            | —                | (1,520)                   |
| Equipment                                      | <u>(11,579)</u>              | <u>(603)</u>     | <u>130</u>       | <u>(12,052)</u>           |
| Total Accumulated Depreciation                 | <u>(12,970)</u>              | <u>(732)</u>     | <u>130</u>       | <u>(13,572)</u>           |
| Total Capital Assets, Being Depreciated, Net   | <u>2,164</u>                 | <u>833</u>       | <u>(2)</u>       | <u>2,995</u>              |
| Business-type Activities Capital Assets, Net   | <u>\$ 2,775</u>              | <u>\$1,276</u>   | <u>\$ (2)</u>    | <u>\$ 4,049</u>           |

Depreciation expense was charged to functions as follows:

|  |              |
|--|--------------|
| West Virginia Lottery                                  | \$569        |
| Public Employees' Insurance Agency                     | 19           |
| Alcohol Beverage Control Administration                | <u>144</u>   |
| Total Business-type Activities<br>Depreciation Expense | <u>\$732</u> |

## Discretely Presented Component Units

(Expressed in Thousands)

|  | <b>Beginning<br/>Balance</b> | <b>Increases</b>  | <b>Decreases</b>   | <b>Ending<br/>Balance</b> |
|--|------------------------------|-------------------|--------------------|---------------------------|
| Discrete Component Unit Activities:            |                              |                   |                    |                           |
| Capital Assets Not Being Depreciated:          |                              |                   |                    |                           |
| Land   | \$ 144,869                   | \$ 9,909          | \$ (1,650)         | \$ 153,128                |
| Construction in Progress                       | <u>285,911</u>               | <u>215,314</u>    | <u>(258,459)</u>   | <u>242,766</u>            |
| Total Capital Assets,<br>Not Being Depreciated | <u>430,780</u>               | <u>225,223</u>    | <u>(260,109)</u>   | <u>395,894</u>            |
| Capital Assets, Being Depreciated              |                              |                   |                    |                           |
| Buildings and Improvements                     | 1,666,931                    | 253,345           | (2,096)            | 1,918,180                 |
| Equipment                                      | 398,877                      | 32,407            | (41,975)           | 389,309                   |
| Infrastructure                                 | 1,042,594                    | 32,474            | (156)              | 1,074,912                 |
| Library Holdings                               | 120,204                      | 8,079             | (429)              | 127,854                   |
| Land Improvements                              | <u>24,690</u>                | <u>4,243</u>      | <u>—</u>           | <u>28,933</u>             |
| Total Capital Assets, Being Depreciated        | <u>3,253,296</u>             | <u>330,548</u>    | <u>(44,656)</u>    | <u>3,539,188</u>          |
| Less Accumulated Depreciation for:             |                              |                   |                    |                           |
| Buildings and Improvements                     | (521,871)                    | (41,789)          | 702                | (562,958)                 |
| Equipment                                      | (277,761)                    | (27,762)          | 25,489             | (280,034)                 |
| Infrastructure                                 | (560,755)                    | (36,254)          | —                  | (597,009)                 |
| Library Holdings                               | (95,902)                     | (6,775)           | 414                | (102,263)                 |
| Land Improvements                              | <u>(12,051)</u>              | <u>(1,687)</u>    | <u>96</u>          | <u>(13,642)</u>           |
| Total Accumulated Depreciation                 | <u>(1,468,340)</u>           | <u>(114,267)</u>  | <u>26,701</u>      | <u>(1,555,906)</u>        |
| Total Capital Assets Being Depreciated, Net    | <u>1,784,956</u>             | <u>216,281</u>    | <u>(17,955)</u>    | <u>1,983,282</u>          |
| Discrete Component Unit Activities             |                              |                   |                    |                           |
| Capital Assets, Net                            | <u>\$ 2,215,736</u>          | <u>\$ 441,504</u> | <u>\$(278,064)</u> | <u>\$ 2,379,176</u>       |

Depreciation expense was charged to Discrete Component Units as follows:

|  |                  |
|--|------------------|
| Economic Development Authority                           | \$ 1,162         |
| Parkways, Economic Development,<br>and Tourism Authority | 30,127           |
| Water Development Authority                              | 31               |
| Higher Education   | 74,694           |
| Educational Broadcasting Authority                       | 1,636            |
| WV State Rail Authority                                  | 1,335            |
| Solid Waste Management Board                             | 7                |
| Regional Jail Authority                                  | 5,163            |
| Racing Commission  | 16               |
| Public Defender Corporation                              | <u>96</u>        |
| Total Discrete Component Unit<br>Depreciation Expense    | <u>\$114,267</u> |

## NOTE 10

## LONG-TERM OBLIGATIONS

## Primary Government:

Long-term obligations at June 30, 2007, and changes for the fiscal year then ended are as follows (expressed in thousands):

|   | Balance<br>June 30, 2006 | Additions          | Reductions          | Other<br>Changes  | Balance<br>June 30, 2007 | Amount<br>Due<br>Within<br>One Year |
|---|--------------------------|--------------------|---------------------|-------------------|--------------------------|-------------------------------------|
| <b>Governmental Activities</b>                          |                          |                    |                     |                   |                          |                                     |
| General Obligation Bonds:                               |                          |                    |                     |                   |                          |                                     |
| Transportation  | \$ 447,995               | \$ —               | \$ (18,150)         | \$ —              | \$ 429,845               | \$ 28,655                           |
| Premium/(Discount)                                      | <u>30,014</u>            | <u>—</u>           | <u>(2,000)</u>      | <u>—</u>          | <u>28,014</u>            | <u>1,941</u>                        |
| Total Transportation                                    | 478,009                  | —                  | (20,150)            | —                 | 457,859                  | 30,596                              |
| WV Infrastructure and Jobs<br>Development Council       | 294,903                  | 94,180             | (107,765)           | 4,859             | 286,177                  | 13,015                              |
| Premium/(Discount)                                      | <u>—</u>                 | <u>5,896</u>       | <u>(5,142)</u>      | <u>—</u>          | <u>754</u>               | <u>—</u>                            |
| Total WV Infrastructure and<br>Jobs Development Council | 294,903                  | 100,076            | (112,907)           | 4,859             | 286,931                  | 13,015                              |
| Total General Obligation Bonds                          | <u>772,912</u>           | <u>100,076</u>     | <u>(133,057)</u>    | <u>4,859</u>      | <u>744,790</u>           | <u>43,611</u>                       |
| Revenue Bonds:  |                          |                    |                     |                   |                          |                                     |
| Transportation  | —                        | 109,160            | —                   | —                 | 109,160                  | 10,285                              |
| Premium/(Discount)                                      | <u>—</u>                 | <u>3,683</u>       | <u>(244)</u>        | <u>—</u>          | <u>3,439</u>             | <u>—</u>                            |
| Total Transportation                                    | —                        | 112,843            | (244)               | —                 | 112,599                  | 10,285                              |
| WV Infrastructure and Jobs<br>Development Council       | 89,020                   | 38,135             | (1,015)             | —                 | 126,140                  | 1,610                               |
| Premium/(Discount)                                      | <u>(3,117)</u>           | <u>638</u>         | <u>238</u>          | <u>—</u>          | <u>(2,241)</u>           | <u>—</u>                            |
| Total WV Infrastructure and<br>Jobs Development Council | 85,903                   | 38,773             | (777)               | —                 | 123,899                  | 1,610                               |
| Tobacco Settlement Authority                            | —                        | 911,142            | —                   | —                 | 911,142                  | 20,740                              |
| Premium/(Discount)                                      | <u>—</u>                 | <u>(5,091)</u>     | <u>—</u>            | <u>—</u>          | <u>(5,091)</u>           | <u>—</u>                            |
| Total Tobacco Settlement Authority                      | —                        | 906,051            | —                   | —                 | 906,051                  | 20,740                              |
| School Building Authority                               | 365,935                  | 197,276            | (213,475)           | (11,296)          | 338,440                  | 24,675                              |
| Premium/(Discount)                                      | <u>3,305</u>             | <u>—</u>           | <u>(434)</u>        | <u>4,735</u>      | <u>7,606</u>             | <u>—</u>                            |
| Total School Building Authority                         | 369,240                  | 197,276            | (213,909)           | (6,561)           | 346,046                  | 24,675                              |
| Education   | 2,069                    | —                  | (2,069)             | —                 | —                        | —                                   |
| Economic Development Project Fund                       | 228,840                  | —                  | (7,275)             | —                 | 221,565                  | 7,440                               |
| Premium/(Discount)                                      | <u>(1,258)</u>           | <u>—</u>           | <u>70</u>           | <u>—</u>          | <u>(1,188)</u>           | <u>—</u>                            |
| Total Economic Development<br>Project Fund              | 227,582                  | —                  | (7,205)             | —                 | 220,377                  | 7,440                               |
| Education, Arts, Sciences, & Tourism Fund               | <u>41,455</u>            | <u>—</u>           | <u>(7,780)</u>      | <u>—</u>          | <u>33,675</u>            | <u>8,210</u>                        |
| Total Revenue Bonds                                     | <u>726,249</u>           | <u>1,254,943</u>   | <u>(231,984)</u>    | <u>(6,561)</u>    | <u>1,742,647</u>         | <u>72,960</u>                       |
| Capital Leases (See Note 11)                            | 345,386                  | 190                | (13,798)            | —                 | 331,778                  | 12,974                              |
| Capital Leases - Internal Service Funds                 | 2,705                    | 13                 | (681)               | —                 | 2,037                    | 720                                 |
| Notes Payable   | <u>5,909</u>             | <u>7,370</u>       | <u>(3,172)</u>      | <u>(109)</u>      | <u>9,998</u>             | <u>3,316</u>                        |
| Total Capital Leases and Other Debt                     | <u>354,000</u>           | <u>7,573</u>       | <u>(17,651)</u>     | <u>(109)</u>      | <u>343,813</u>           | <u>17,010</u>                       |
| Other Obligations:                                      |                          |                    |                     |                   |                          |                                     |
| Accrued and Other Liabilities (See Note 15)             | 972,421                  | 137,280            | (9,966)             | —                 | 1,099,735                | 495,323                             |
| Compensated Absences                                    | 278,444                  | 5,531              | (15,038)            | —                 | 268,937                  | 71,531                              |
| Net Pension Obligation (See Note 12)                    | <u>260,822</u>           | <u>—</u>           | <u>(194,975)</u>    | <u>—</u>          | <u>65,847</u>            | <u>—</u>                            |
| Total Other Obligations                                 | <u>1,511,687</u>         | <u>142,811</u>     | <u>(219,979)</u>    | <u>—</u>          | <u>1,434,519</u>         | <u>566,854</u>                      |
| Total Governmental Activities Long-Term<br>Obligations  | <u>\$3,364,848</u>       | <u>\$1,505,403</u> | <u>\$ (602,671)</u> | <u>\$ (1,811)</u> | <u>\$4,265,769</u>       | <u>\$700,435</u>                    |

## West Virginia

|  | Balance<br>June 30, 2006 | Additions        | Reductions         | Other<br>Changes | Balance<br>June 30, 2007 | Amount<br>Due<br>Within<br>One Year |
|--|--------------------------|------------------|--------------------|------------------|--------------------------|-------------------------------------|
| <b>Business-type Activities</b>            |                          |                  |                    |                  |                          |                                     |
| Accrued Tuition Contract Benefits          | \$ 108,321               | \$ 7,622         | \$ (84)            | \$—              | \$ 115,859               | \$ 9,372                            |
| Insurance and Compensation Benefits        | 3,542,598                | 419,536          | (749,092)          | —                | 3,213,042                | 391,386                             |
| Liabilities Payable from Restricted Assets | 4,595                    | 19               | (4,316)            | —                | 298                      | 159                                 |
| Compensated Absences                       | 4,511                    | 150              | (1,544)            | —                | 3,117                    | 36                                  |
| Total Business-type Activities Long-Term   | <u>\$3,660,025</u>       | <u>\$427,327</u> | <u>\$(755,036)</u> | <u>\$—</u>       | <u>\$3,332,316</u>       | <u>\$400,953</u>                    |

The assets of the general fund, special revenue, and internal service funds are used to liquidate the capital lease obligations and accrued and other liabilities of their respective fund types. Compensated absences liabilities are liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations are liquidated by the State's governmental and internal service funds that contribute toward the pension funds based on plans established by the action of the State Legislature. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the totals for governmental activities. At year-end, \$4.4 million of internal service funds compensated absences are included in the governmental amounts.

Senate Bill 1002, enacted in January 2005, provides that on and after February 1, 2005, bonds may not be issued or refunded by the State or any of its agencies, boards, or commissions without the express written direction of the governor if (1) the ultimate user of the proceeds of the bonds is the State or any of its agencies, boards commissions, or departments, or (2) the issuance or refunding of the bonds implicates the State's credit rating.

**General Obligation Bonds** – The State has constitutionally limited its ability to incur debt. The State's general obligation debt must be authorized by constitutional amendment. A proposed amendment must be approved by two-thirds of both the Senate and the House of Delegates before it can be ratified or rejected by the voters. Once the amendment has voter approval, the Legislature must pass specific legislation authorizing the issuance of general obligation debt. All bonds authorized under prior constitutional amendments have been issued. General obligation bonds outstanding at June 30, 2007, were as follows (expressed in thousands):

|   | Final<br>Maturity<br>Date | Interest<br>Rate(s)% | Balance          |
|---|---------------------------|----------------------|------------------|
| Transportation Bonds:   |                           |                      |                  |
| Payable from State Road Fund to build roads,<br>issued under:   |                           |                      |                  |
| 1996 SAFE Roads Amendment   | 2025                      | 3.00-5.75            | \$457,859        |
| Infrastructure Bonds:   |                           |                      |                  |
| Payable from dedicated severance tax revenues<br>to fund water, wastewater and economic<br>development projects | 2027                      | 4.00-7.25            | <u>286,931</u>   |
| Total   |                           |                      | <u>\$744,790</u> |



Future amounts required to pay principal and interest on general obligation bonds at June 30, 2007, were as follows (expressed in thousands):

| <u>Year Ended June 30</u> | <u>Principal</u>   | <u>Interest</u>      | <u>Total</u>         |
|---------------------------|--------------------|----------------------|----------------------|
| 2008                      | \$ 34,720          | \$ 31,356            | \$ 66,076            |
| 2009                      | 36,415             | 29,563               | 65,978               |
| 2010                      | 38,230             | 27,687               | 65,917               |
| 2011                      | 40,240             | 25,723               | 65,963               |
| 2012                      | 42,420             | 23,616               | 66,036               |
| 2013-2017                 | 162,760            | 89,853               | 252,613              |
| 2018-2022                 | 141,835            | 50,826               | 192,661              |
| 2023-2027                 | <u>125,200</u>     | <u>14,224</u>        | <u>139,424</u>       |
|                           | <u>621,820</u>     | <u>292,848</u>       | <u>914,668</u>       |
| <br><b>Premium</b>        | <br><u>28,768</u>  | <br><u>—</u>         | <br><u>28,768</u>    |
| <br><b>Total</b>          | <br><u>650,588</u> | <br><u>\$292,848</u> | <br><u>\$943,436</u> |

|   |  |  |                      |
|---|--|--|----------------------|
| <b>Capital Appreciation Bonds</b>         | <b>Principal<br/>Net of<br/>Accreted<br/>Amounts</b> | <b>Future<br/>Accreted<br/>Amounts</b> | <b>Total</b>         |
| <u>Year Ended June 30</u>                 |  |  |                      |
| 2008                                      | \$ 6,842   | \$ 108                                 | \$ 6,950             |
| 2009                                      | 6,617  | 432                                    | 7,049                |
| 2010                                      | 6,341  | 759                                    | 7,100                |
| 2011                                      | 5,970  | 1,080                                  | 7,050                |
| 2012                                      | 5,596  | 1,380                                  | 6,976                |
| 2013-2017                                 | 24,335   | 11,240                                 | 35,575               |
| 2018-2022                                 | 20,440   | 19,585                                 | 40,025               |
| 2023-2027                                 | <u>18,061</u>  | <u>28,139</u>                          | <u>46,200</u>        |
| <br><b>Total</b>                          | <br><u>94,202</u>                                    | <br><u>\$62,723</u>                    | <br><u>\$156,925</u> |
| <br><b>Total General Obligation Bonds</b> | <br><u>\$744,790</u>                                 |  |                      |

**Revenue Bonds** – Revenue bonds are issued by various State departments, agencies and authorities, and economic development projects. Revenue bonds are issued pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenues. Revenue bonds do not constitute a general obligation of the State. The following describes the purpose and dedicated revenue source of revenue bonds outstanding at June 30, 2007:

| <u>Agency</u>                                  | <u>Purpose</u>  | <u>Revenue Source</u>                                  |
|--|---|--|
| Transportation                                 | Highway, road, and bridge construction  | Federal reimbursement allowed by Title 23, Section 122 |
| WV Infrastructure and Jobs Development Council | To fund water and sewer infrastructure projects                               | Certain repayment of defined loans                     |
| Tobacco Settlement Finance Authority*          | To issue bonds to receive lump sum in lieu of future annual payments from MSA | 100% of receipts from Tobacco MSA until bonds are paid |
| School Building Authority                      | Public schools improvements   | Certain net profits of the West Virginia Lottery       |
| Department of Education                        | Construct or renovate facilities at Cedar Lakes                               | Revenues from Cedar Lakes Conference Center            |
| Economic Development Project Fund              | To provide grants for various economic development projects                   | Certain net profits of the West Virginia Lottery       |
| Education, Arts, Sciences, and Tourism Fund    | Capital projects which promote education, arts, sciences, and tourism         | Certain net profits of the West Virginia Lottery       |

\*The Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007 were issued by the Tobacco Settlement Finance Authority (the Authority) created by Chapter 4, Article 11A of the Code of West Virginia (the Code) on June 26, 2007. Pursuant to the Code, and a Purchase and Sale Agreement, dated June 1, 2007, by and between the Authority and the State, the State sold to the Authority its right, title, and interest in and to all tobacco settlement revenue that is received by the State, under the terms of the Master Settlement Agreement entered into by participating tobacco product manufacturers, West Virginia, 45 other states, and six other U.S. jurisdictions in November 1998. These actions prompted the State to early implement GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues."

The Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007 are comprised of two series of turbo term bonds, the Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007A, which are current interest bonds in the amount of \$845,810,000, and the Taxable Tobacco Settlement Asset-Backed Bonds, Series 2007B, which are capital appreciation bonds in the amount of \$65,331,503. The Series 2007 Bonds are secured by and are payable solely from the right, title, and interest of the Authority of 100% of the Tobacco Receipts, and investment earnings on the accounts with the trustee under the Indenture.

The tobacco receipts through 2029 are estimated to be approximately \$1.5 billion, using 85% (the percentage actually received since 2005) of the amount calculated by the National Governor's Association. Assuming a 5.2% interest rate, the net present value of the receipts is \$897 billion.

Revenue bonds outstanding at June 30, 2007, were as follows (expressed in thousands):

|   | <u>Issue<br/>Date</u> | <u>Final<br/>Maturity<br/>Date</u> | <u>Interest<br/>Rate(s)%</u> | <u>Balance</u>     |
|---|-----------------------|------------------------------------|------------------------------|--------------------|
| Transportation                                    | 2006-2007             | 2016                               | 3.75-5.00                    | \$ 112,599         |
| WV Infrastructure and<br>Jobs Development Council | 2001-2007             | 2046                               | 2.50-5.50                    | 123,899            |
| Tobacco Settlement Finance<br>Authority           | 2007                  | 2029                               | 7.47-8.50                    | 906,051            |
| School Building Authority                         | 1990-2007             | 2022                               | 2.00-6.95                    | 346,046            |
| Economic Development<br>Project Fund              | 2004                  | 2027                               | 1.20-6.07                    | 220,377            |
| Education, Arts, Sciences,<br>and Tourism Fund    | 1997                  | 2011                               | 5.00-5.50                    | <u>33,675</u>      |
| Total   |                       |                                    |                              | <u>\$1,742,647</u> |

Future amounts required to pay principal and interest on revenue bonds at June 30, 2007, were as follows (expressed in thousands):

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u>    | <u>Total</u>       |
|---------------------------|------------------|--------------------|--------------------|
| 2008                      | \$ 72,960        | \$ 112,236         | \$ 185,196         |
| 2009                      | 78,290           | 97,841             | 176,131            |
| 2010                      | 80,330           | 93,504             | 173,834            |
| 2011                      | 87,545           | 89,002             | 176,547            |
| 2012                      | 85,350           | 84,178             | 169,528            |
| 2013-2017                 | 467,170          | 340,496            | 807,666            |
| 2018-2022                 | 418,785          | 202,200            | 620,985            |
| 2023-2027                 | 315,725          | 57,290             | 373,015            |
| 2028-2032                 | 20,830           | 14,132             | 34,962             |
| 2033-2037                 | 24,945           | 8,642              | 33,587             |
| 2038-2042                 | 16,980           | 2,977              | 19,957             |
| 2043-2047                 | <u>5,880</u>     | <u>475</u>         | <u>6,355</u>       |
|                           | <u>1,674,790</u> | <u>1,102,973</u>   | <u>2,777,763</u>   |
| <b>Premium</b>            | <u>2,525</u>     | <u>—</u>           | <u>2,525</u>       |
| <b>Total</b>              | <u>1,677,315</u> | <u>\$1,102,973</u> | <u>\$2,780,288</u> |

| <u>Year Ended June 30</u>  | <u>Principal<br/>Net of<br/>Accreted<br/>Amounts</u> | <u>Future<br/>Accreted<br/>Amounts</u> | <u>Total</u>      |
|----------------------------|--|--|-------------------|
| 2008                       | \$ —   | \$ 5,261                               | \$ 5,261          |
| 2009                       | —  | 6,114                                  | 6,114             |
| 2010                       | —  | 6,658                                  | 6,658             |
| 2011                       | —  | 7,239                                  | 7,239             |
| 2012                       | —  | 7,874                                  | 7,874             |
| 2013-2017                  | —  | 50,836                                 | 50,836            |
| 2018-2022                  | —  | 77,088                                 | 77,088            |
| 2023-2027                  | 65,332   | 96,737                                 | 162,069           |
| 2028-2032                  | <u>—</u>   | <u>7,879</u>                           | <u>7,879</u>      |
| <b>Total</b>               | <u>65,332</u>  | <u>\$ 265,686</u>                      | <u>\$ 331,018</u> |
| <b>Total Revenue Bonds</b> | <u>\$1,742,647</u>                                   |  |                   |

## West Virginia

Certain revenue bonds have call provisions providing for redemption at the option of the State, beginning ten years following the date of issuance, in whole or in part, in inverse order of maturity, and pay a redemption price not exceeding 103% of par value.

Notes payable are issued by Information Services and Communications and Travel Management internal service funds for the purpose of financing various equipment and vehicles (expressed in thousands).

|   | <b>Final<br/>Maturity<br/>Date</b> | <b>Interest<br/>Rate(s)%</b> | <b>Balance</b> |
|---|------------------------------------|------------------------------|----------------|
| Information Services and Communications | 2009-2012                          | 2.55 - 3.93                  | \$ 642         |
| Travel Management                       | 2008-2011                          | 2.96 - 4.99                  | <u>9,356</u>   |
| Total Notes Payable                     |                                    |                              | <u>\$9,998</u> |

Future amounts required to pay principal and interest on notes payable at June 30, 2007, were as follows (expressed in thousands):

| <b>Year Ended June 30</b> | <b>Principal</b> | <b>Interest</b> | <b>Total</b>    |
|---------------------------|------------------|-----------------|-----------------|
| 2008                      | \$3,316          | \$368           | \$ 3,684        |
| 2009                      | 2,643            | 241             | 2,884           |
| 2010                      | 2,248            | 129             | 2,377           |
| 2011                      | 1,363            | 43              | 1,406           |
| 2012                      | <u>428</u>       | <u>8</u>        | <u>436</u>      |
| Total Notes Payable       | <u>\$9,998</u>   | <u>\$789</u>    | <u>\$10,787</u> |

### Summary of Discretely Presented Component Unit Debt (Expressed in Thousands)

|   | <b>Balance<br/>June 30,<br/>2006</b> | <b>Debt<br/>Issued</b> | <b>Debt<br/>Paid</b> | <b>Other<br/>Changes</b> | <b>Balance<br/>June 30,<br/>2007</b> | <b>Amount<br/>Due<br/>Within<br/>One Year</b> |
|---|--------------------------------------|------------------------|----------------------|--------------------------|--------------------------------------|---|
| Revenue Bonds:  |                                      |                        |                      |                          |                                      |   |
| Housing Development Fund  | \$ 734,190                           | \$ 97,289              | \$ (80,520)          | \$ (120)                 | \$ 750,839                           | \$24,925                                      |
| Parkways, Economic Development,<br>and Tourism Authority                  | 99,687                               | —                      | (6,868)              | 1,055                    | 93,874                               | 6,680   |
| Water Development Authority   | 247,787                              | —                      | (6,585)              | 799                      | 242,001                              | 5,531   |
| Higher Education  | 722,348                              | 27,588                 | (46,439)             | —                        | 703,497                              | 22,238  |
| Regional Jail Authority   | <u>90,110</u>                        | <u>—</u>               | <u>(4,130)</u>       | <u>—</u>                 | <u>85,980</u>                        | <u>4,335</u>                                  |
| Total Discretely Presented Component<br>Unit Revenue Bonds                | <u>\$1,894,122</u>                   | <u>\$124,877</u>       | <u>\$ (144,542)</u>  | <u>\$1,734</u>           | <u>\$1,876,191</u>                   | <u>\$63,709</u>                               |
| Capital Leases:   |                                      |                        |                      |                          |                                      |   |
| Parkways, Economic Development,<br>and Tourism Authority                  | \$ 1,945                             | \$ —                   | \$ (502)             | \$ —                     | \$ 1,443                             | \$ 522  |
| Higher Education  | <u>23,502</u>                        | <u>19,988</u>          | <u>(6,217)</u>       | <u>—</u>                 | <u>37,273</u>                        | <u>5,760</u>                                  |
| Total Discretely Presented Component<br>Unit Capital Leases (See Note 11) | <u>\$ 25,447</u>                     | <u>\$ 19,988</u>       | <u>\$ (6,719)</u>    | <u>\$ —</u>              | <u>\$ 38,716</u>                     | <u>\$ 6,282</u>                               |
| Notes Payable:  |                                      |                        |                      |                          |                                      |   |
| Economic Development Authority  | \$ 7,218                             | \$ —                   | \$ (904)             | \$ —                     | \$ 6,314                             | \$ 429  |
| Higher Education  | 3,830                                | 3,920                  | (827)                | —                        | 6,923                                | 144   |
| Job Investment Trust  | 19,878                               | —                      | —                    | 1,305                    | 21,183                               | —   |
| West Virginia State Rail Authority  | 837                                  | —                      | (395)                | (17)                     | 425                                  | 425   |
| Public Defender Corporation   | <u>168</u>                           | <u>—</u>               | <u>(17)</u>          | <u>—</u>                 | <u>151</u>                           | <u>19</u>                                     |
| Total Discretely Presented Component<br>Unit Notes Payable                | <u>\$ 31,931</u>                     | <u>\$ 3,920</u>        | <u>\$ (2,143)</u>    | <u>\$1,288</u>           | <u>\$ 34,996</u>                     | <u>\$ 1,017</u>                               |

## Discretely Presented Component Units

**Revenue Bonds** – Revenue bonds are issued by various component units pursuant to specific statutory provisions enacted by the Legislature for the purpose of financing capital construction. Principal and interest payments are made from specifically dedicated fees and other revenue sources, such as tuition and registration fees, dedicated court fees, mortgage loan repayments, and certain nontoll revenues. Revenue bonds do not constitute general debt of the State (expressed in thousands).

|  | <b>Issue<br/>Date</b> | <b>Final<br/>Maturity<br/>Date</b> | <b>Interest<br/>Rate(s)%</b> | <b>Balance</b>     |
|--|-----------------------|------------------------------------|------------------------------|--------------------|
| Housing Development Fund                                 | 1997-2007             | 2040                               | 3.70 - 6.55                  | \$ 750,839         |
| Parkways, Economic Development,<br>and Tourism Authority | 1993-2003             | 2019                               | 3.50 - 7.00                  | 93,874             |
| Water Development Authority                              | 2000-2006             | 2044                               | 2.00 - 6.375                 | 242,001            |
| Higher Education   | 1969-2006             | 2035                               | 4.18 - 6.26                  | 703,497            |
| Regional Jail Authority                                  | 1998                  | 2021                               | 4.31 - 5.35                  | <u>85,980</u>      |
| Total Revenue Bonds                                      |                       |                                    |                              | <u>\$1,876,191</u> |

Future amounts required to pay principal and interest on revenue bonds of the discretely presented component units at June 30, 2007, were as follows (expressed in thousands):

| <b>Year Ended June 30</b> | <b>Principal</b>   | <b>Interest</b>    | <b>Total</b>       |
|---------------------------|--------------------|--------------------|--------------------|
| 2008                      | \$ 65,020          | \$ 91,083          | \$ 156,103         |
| 2009                      | 66,145             | 87,679             | 153,824            |
| 2010                      | 65,019             | 84,734             | 149,753            |
| 2011                      | 68,070             | 81,754             | 149,824            |
| 2012                      | 70,212             | 78,608             | 148,820            |
| 2013-2017                 | 337,905            | 365,426            | 703,331            |
| 2018-2022                 | 376,796            | 282,850            | 659,646            |
| 2023-2027                 | 339,386            | 197,604            | 536,990            |
| 2028-2032                 | 298,954            | 113,622            | 412,576            |
| 2033-2037                 | 170,740            | 27,450             | 198,190            |
| 2038-2042                 | 29,765             | 4,474              | 34,239             |
| 2043-2047                 | <u>5,960</u>       | <u>457</u>         | <u>6,417</u>       |
|                           | <u>1,893,972</u>   | <u>1,415,741</u>   | <u>3,309,713</u>   |
| Discount                  | (28,930)           | —                  | (28,930)           |
| Premium                   | <u>11,149</u>      | <u>—</u>           | <u>11,149</u>      |
| Total                     | <u>\$1,876,191</u> | <u>\$1,415,741</u> | <u>\$3,291,932</u> |

## ***West Virginia***

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Notes payable are issued for various reasons, including construction and the purchase of land and buildings and vehicles. For detailed information on specific notes, see the separately issued financial statements of the discretely presented component units.

The following is a summary of notes payable at June 30, 2007, (expressed in thousands):

|                                | <b><u>Issue<br/>Date</u></b> | <b><u>Final<br/>Maturity<br/>Date</u></b> | <b><u>Interest<br/>Rate(s)%</u></b> | <b><u>Balance</u></b> |
|--------------------------------|------------------------------|---|-------------------------------------|-----------------------|
| Economic Development Authority | 2006                         | 2023                                      | 3.00 - 9.00                         | \$ 6,314              |
| Higher Education               | 1997-2007                    | 2026                                      | 5.11 - 6.30                         | 6,923                 |
| Jobs Investment Trust          | 2001-2004                    | 2014                                      | 5.40 - 6.95                         | 21,183                |
| Rail Authority                 | N/A                          | 2008                                      | 6.70 - 7.40                         | 425                   |
| Public Defender Corporation    | 2005                         | 2015                                      | 6.99 - 7.50                         | <u>151</u>            |
| Total Notes Payable            |                              |   |                                     | <u>\$34,996</u>       |

Future amounts required to pay principal and interest on notes payable of the discretely presented component units at June 30, 2007, were as follows (expressed in thousands):

| <b><u>Year Ended June 30</u></b> | <b><u>Principal</u></b> | <b><u>Interest</u></b> | <b><u>Total</u></b> |
|----------------------------------|-------------------------|------------------------|---------------------|
| 2008                             | \$ 1,017                | \$ 1,661               | \$ 2,678            |
| 2009                             | 570                     | 1,702                  | 2,272               |
| 2010                             | 595                     | 1,775                  | 2,370               |
| 2011                             | 5,240                   | 1,864                  | 7,104               |
| 2012                             | 5,146                   | 1,394                  | 6,540               |
| 2013-2017                        | 15,804                  | 2,141                  | 17,945              |
| 2018-2022                        | 956                     | 124                    | 1,080               |
| 2023-2027                        | <u>5,668</u>            | <u>4</u>               | <u>5,672</u>        |
| Total                            | <u>\$34,996</u>         | <u>\$10,665</u>        | <u>\$45,661</u>     |

### **Parkways, Economic Development, and Tourism Authority**

In 2003, the Parkways, Economic Development, and Tourism Authority (Parkways) issued \$63,900,000 of Variable Rate Demand Revenue Refunding Bonds for the express purpose of refunding \$61,280,000 of Parkways' Series 1993 Bonds. This refunding resulted in a \$7,896,000 deferred loss arising from the difference between the reacquisition price and the net carrying amount of the refunded debt. Amortization of this deferral, charged annually to interest expense through 2019, approximated \$566,000 in 2007 and \$569,000 in 2006. Parkways completed the refunding to reduce its aggregate debt service payment by \$7,270,000 over a 17-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,851,000. The Series 2003 bonds bear interest at the Weekly Interest Rate determined by the remarketing agent on Tuesday of each week. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, Parkways entered into an interest rate swap in connection with its 2003 Variable Rate Demand Revenue Refunding Bonds. The intention of the swap was to effectively change Parkway's variable interest rate on the bonds to a synthetic fixed rate of 4.387%.

The bonds and the related swap agreement mature on May 1, 2019, and the swap's notional amount of \$63,900,000 matches the \$63,900,000 variable rate bonds, Series 2003. Under the swap, Parkways pays the counterparty a fixed payment of 4.387% and receives a variable payment computed as 67.0% of the London Interbank Offered Rate (LIBOR). Conversely, the bond's variable rate is based on The Bond Market Association Municipal Swap Index (BMA).

Because interest rates have declined since the execution of the swap, the swap had a negative fair value of \$2,536,251 as of June 30, 2007. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable rate bonds, creating a lower synthetic interest rate. Because the bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

As of June 30, 2007, Parkways was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, Parkways would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated AA by Fitch Ratings and Standard & Poor's and Aa by Moody's Investors Service as of June 30, 2007.

The swap exposes Parkways to basis risk should the relationship between LIBOR and BMA converge, changing the synthetic rate on the bonds. The effect of this difference would be indicated by a difference between the intended synthetic rate and the synthetic rate as of June 30, 2007. If a change occurs that results in rates moving to convergence, the expected cost saving may not be realized. As of June 30, 2007, the BMA rate was 3.73%, whereas 67.0% of the LIBOR was 3.62%.

Parkways or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, Parkways would be liable to the counterparty for a payment equal to the swap's fair value.

Using rates as of June 30, 2007, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows (expressed in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

| <u>Year Ended June 30</u> | <u>Variable-Rate Bonds</u> |                 | <u>Interest Rate<br/>Swap, Net</u> | <u>Total</u>    |
|---------------------------|----------------------------|-----------------|------------------------------------|-----------------|
|                           | <u>Principal</u>           | <u>Interest</u> |                                    |                 |
| 2008                      | \$ 3,900                   | \$ 1,993        | \$ 911                             | \$ 6,804        |
| 2009                      | 4,300                      | 2,243           | 485                                | 7,028           |
| 2010                      | 4,300                      | 2,079           | 451                                | 6,830           |
| 2011                      | 4,700                      | 1,916           | 413                                | 7,029           |
| 2012                      | 4,700                      | 1,738           | 404                                | 6,842           |
| 2013-2017                 | 28,000                     | 5,768           | 1,221                              | 34,989          |
| 2018-2019                 | <u>13,100</u>              | <u>751</u>      | <u>129</u>                         | <u>13,980</u>   |
|                           | <u>\$63,000</u>            | <u>\$16,488</u> | <u>\$4,014</u>                     | <u>\$83,502</u> |

See Note 16 for updated discussion related to the West Virginia Parkways, Economic Development and Tourism Authority's variable rate demand revenue refunding bonds.

### **Debt Contingencies and No-Commitment Debt**

As a vehicle to assist the local and other non-State governments in West Virginia, the State may appropriate sufficient amounts to meet any deficiencies that may arise because of failures by such entities to provide for debt service payments for obligations under the supervision and control of the Municipal Bond Commission. For the year ended June 30, 2007, no such amounts were transferred to the Municipal Bond Commission under this agreement.

The Hospital Finance Authority (HFA), the Public Energy Authority (PEA), and the Economic Development Authority (EDA) have issued bonds on behalf of third parties that in no way obligates the State, HFA, PEA, or EDA, for these debt issuances, unless these entities or the State serve in a third-party role. The obligations become an obligation of the third party when issued, because all rights to payments and/or obligations have been irrevocably assigned to a trustee. Payments are made directly to the trustee from dedicated revenues of the third parties, in accordance with the related bond indentures. The amount of such no-commitment debt outstanding at June 30, 2007, is approximately \$1.1 billion, \$83 million, and \$1.3 billion for HFA, PEA, and EDA, respectively.

Included in the \$1.3 billion EDA current value is \$321 million related to bonds issued by EDA specifically for the construction of correctional, public safety, and other State office facilities, as well as an energy savings project. The bonds are limited obligations of the EDA, payable solely out of rental revenue derived under the indenture and the contracts of lease-purchase between the EDA and the State. The bonds shall never constitute an indebtedness of the State or the issuer within the meaning of any constitutional provision or statutory limitation, nor are they a charge against the property, general credit, or taxing power, if any, of the State or issuer. The State's obligation to pay rentals is subject to and dependent upon yearly appropriations being made by the State Legislature sufficient for such purpose. If the State Legislature does not make an appropriation to pay the lease rentals or the State provides a 30-day notice of cancellation, the contracts of lease-purchase



shall be terminated, and the State is to surrender possession of the related facilities. The State has recorded the leasing arrangements as capital lease obligations, included in the lease amounts disclosed in Note 11.

The Housing Development Fund (HDF) has a \$15 million line of credit with the Federal Home Loan Bank that is available as a warehouse line for the purchase of single-family, multifamily, and secondary market loans. This line of credit is secured by investments of the Bond Insurance Fund and is a general obligation of the HDF. At June 30, 2007, no advances had been drawn on this line of credit, and accordingly, no balance is outstanding.

### **Current Year Extinguishment of Debt**

#### **West Virginia Infrastructure and Jobs Development Council**

On November 1, 2006, the Council issued General Obligation Refunding Bonds, Series 2006, for \$94,180,000 with interest rates ranging from 4.00% to 5.00% to partially refund \$27,305,000, \$36,710,000 and \$31,135,000 of the State's outstanding Series 1996A, 1996D and 1998A general obligation bonds, respectively, with interest rates ranging from 4.80% to 6.50%. The proceeds of \$100,076,395 (including original issue premium of \$5,896,395) and \$275,000 of the State's funds were used to pay \$718,079 in underwriting fees, insurance, and other issuance costs relating to the refunding bond issue; provide for the November 1, 2006, redemption of \$27,305,000 and \$25,900,000 of the Series 1996A and 1996D general obligation bonds, respectively, being currently refunded; pay the early redemption premium of \$546,100 and \$518,000 of the Series 1996A and 1996D general obligation bonds, respectively, being currently refunded; and to purchase United States government obligations. Those securities were deposited in an irrevocable escrow fund with an escrow agent to provide for (i) the interest due on the Series 1996D bonds being advance refunded through and including November 1, 2016, and to redeem the principal amount of the Series 1996D bonds on November 1, 2016, at a redemption price of 102% of the principal amount thereof, and (ii) the interest due on the Series 1998A bonds being advance refunded through and including November 1, 2008, and to redeem the principal amount of the Series 1998A bonds on November 1, 2008, at a redemption price of 102% of the principal amount thereof. As a result of these advance refundings, \$10,810,000 of the Series 1996D bonds and \$31,135,000 of the Series 1998A bonds are considered to be defeased; and the liability for those bonds has been removed from the financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$2,302,669 and \$1,116,547 of the Series 1996D and 1998A bonds, respectively. Adjusted for 2007 combined amortization of \$126,380, those differences are being charged to expense through fiscal years 2027 and 2022 for the differences associated with the refunding of the Series 1996D bonds and 1998A bonds, respectively, using the straight-line method. The Council completed the refunding to reduce its total debt service payments over the next 20 years by \$9,714,744 and to obtain an economic

gain (difference between the present values of the old and new debt service requirements, discounted at the effective interest rate of the new debt and adjusted for additional cash paid) of \$6,204,472.

#### Housing Development Fund

During the fiscal year ended June 30, 2007, the Housing Development Fund redeemed \$30,340,000 of bonds at a redemption price which approximated their carrying value. The impact of the early redemption on their financial statements was not material and there was no debt reissued.

#### School Building Authority

On June 30, 2007, the Authority issued \$185,980,000 of Capital Improvement Refunding Revenue Bonds, Series 2007A, for the express purpose of refunding \$190,715,000 of the outstanding balance on the 1997 and 1997B Capital Improvement Revenue Bonds. The Authority completed the refunding to reduce its aggregate debt payments by approximately \$10,240,700 over a 15-year period (life of the refunding bonds) and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$13,970,362.

#### Higher Education Fund

On April 2007, the Fund issued \$25,915,000 of 2007 Series A Bonds with rates up to 5% and a total all-in interest cost of 4.3%, maturing serially through April 1, 2027. The 2007 A Bonds were issued to provide funding for a refinancing of a portion of the State College System 1997 Series A Bonds (\$7,885,000), State University System 1997 Series A Bonds (\$9,990,000), and the State University System 2000 B Bonds (\$6,970,000). The amount refinanced was \$24,815,000 and with the reduced interest rates will provide a total cash savings of \$1,813,791 to the State. The economic gain on the refinancing was \$1,253,171.

#### Prior Defeasances

In prior years, the State defeased certain revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payment on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements. At June 30, 2007, the following outstanding bonds are considered defeased (expressed in thousands):

| <u>Outstanding Amount</u>            |                  |
|--------------------------------------|------------------|
| Primary Government                   | \$ 53,145        |
| Discretely Presented Component Units | <u>102,305</u>   |
| Total                                | <u>\$155,450</u> |

## NOTE 11

### LEASES

The State has entered into various lease/purchase agreements with the private sector, primarily for buildings and equipment. These agreements, accounted for as capital leases, are for various terms. While most of these agreements contain fiscal funding clauses indicating that their continuation is subject to continuing appropriation by the Legislature, these leases are accounted for as capital leases and are considered noncancelable for financial reporting purposes.

The State has also entered into lease/purchase agreements with the Economic Development Authority which issued bonds to finance construction and acquisition of various capital assets as well as an energy savings project. The State becomes the tenant of the facility under a lease/purchase agreement which provides for the payment of rentals sufficient to cover the related bond debt service and for the passage of title to the State after the bonds have been repaid. The governmental activities capital leases obligation includes approximately \$321 million related to these lease agreements with EDA, a discretely presented component unit. More information on the conduit debt of the EDA is included in Note 10.

GAAP requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a capital asset and the incurrence of an obligation by the lessee. For capital leases in governmental funds, other financing sources are recorded at lease inception. Lease payments are recorded as debt service expenditures. For budgetary purposes, lease payments are only reported as expenditures when paid. In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception.

The following table is an analysis of the property acquired under capital leases by asset category at June 30, 2007, (expressed in thousands):

|                            | Primary Government                          |                                     |
|----------------------------|---|-------------------------------------|
|                            | Governmental Activities                     |                                     |
| <u>Asset Type</u>          | <u>Assets Acquired<br/>by Capital Lease</u> | <u>Accumulated<br/>Depreciation</u> |
| Land                       | \$ 3,063                                    | \$ —                                |
| Buildings and Improvements | 303,729                                     | 47,475                              |
| Construction in Progress   | 57,655                                      | —                                   |
| Machinery and Equipment    | 12,668                                      | 5,849                               |
| Infrastructure             | <u>3,107</u>                                | <u>1,243</u>                        |
| Total                      | <u>\$380,222</u>                            | <u>\$54,567</u>                     |

Future minimum commitments under capital leases as of June 30, 2007, were as follows (expressed in thousands):

| <b>Capital Leases</b>                             |                                    |   |                   |
|---|------------------------------------|---|-------------------|
| <b>Year Ended<br/>June 30</b>                     | <b>Governmental<br/>Activities</b> | <b>Discretely<br/>Presented<br/>Component<br/>Units</b> | <b>Total</b>      |
| 2008  | \$ 30,101                          | \$ 7,919  | \$ 38,020         |
| 2009  | 29,882                             | 5,904   | 35,786            |
| 2010  | 26,587                             | 3,508   | 30,095            |
| 2011  | 25,229                             | 2,829   | 28,058            |
| 2012  | 25,236                             | 11,324  | 36,560            |
| 2013-2017   | 131,317                            | 13,081  | 144,398           |
| 2018-2022   | 129,873                            | 2,271   | 132,144           |
| 2023-2027   | 102,773                            | 914   | 103,687           |
| 2028-2032   | 44,184                             | —   | 44,184            |
| 2033-2037   | <u>2,292</u>                       | <u>—</u>  | <u>2,292</u>      |
| Total Minimum Lease Payments                      | 547,474                            | 47,750  | 595,224           |
| Less: Interest                                    | <u>(213,659)</u>                   | <u>(9,034)</u>  | <u>(222,693)</u>  |
| Present Value of Future<br>Minimum Lease Payments | <u>\$ 333,815</u>                  | <u>\$38,716</u>   | <u>\$ 372,531</u> |

Other leases, principally for equipment, are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Operating lease expenditure/expense for the year ended June 30, 2007, was \$24.4 million. Future minimum commitments under operating leases as of June 30, 2007, were as follows (expressed in thousands):

| <b>Operating Leases</b>       |                                    |                                     |   |                  |
|-------------------------------|------------------------------------|-------------------------------------|---|------------------|
| <b>Year Ended<br/>June 30</b> | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Discretely<br/>Presented<br/>Component<br/>Units</b> | <b>Total</b>     |
| 2008                          | \$11,796                           | \$ 286                              | \$ 9,561  | \$ 21,643        |
| 2009                          | 9,574                              | 289                                 | 8,424   | 18,287           |
| 2010                          | 7,854                              | 248                                 | 5,407   | 13,509           |
| 2011                          | 6,243                              | 119                                 | 4,549   | 10,911           |
| 2012                          | 4,892                              | 69                                  | 3,824   | 8,785            |
| 2013-2017                     | 14,313                             | —                                   | 15,374  | 29,687           |
| 2018-2022                     | 5,081                              | —                                   | 9,880   | 14,961           |
| 2023-2027                     | 2,062                              | —                                   | 9,880   | 11,942           |
| 2028-2032                     | 1,106                              | —                                   | 7,905   | 9,011            |
| 2033-2037                     | <u>902</u>                         | <u>—</u>                            | <u>—</u>  | <u>902</u>       |
| Total Minimum Lease Payment   | <u>\$63,823</u>                    | <u>\$1,011</u>                      | <u>\$74,804</u>   | <u>\$139,638</u> |

## **NOTE 12**

### **RETIREMENT SYSTEMS**

#### **Plan Description**

The West Virginia State Legislature has established six defined benefit plans (the Plans) and a defined contribution plan to provide retirement benefits for eligible employees. The Plans are a group of defined benefit public employee retirement systems. The Consolidated Public Retirement Board (CPRB) administers the Plans under the direction of its Board of Trustees, which consists of the Governor, State Auditor, State Treasurer, Secretary of the Department of Administration, and ten members appointed by the Governor. The Governmental Employees Deferred Compensation Plan is administered by a third-party administrator and has been excluded from these financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

The GASB recently issued Statement No. 50, "Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27." This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The State has early adopted this statement, which has no financial impact on the financial statements.

CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from the Consolidated Public Retirement Board, 4101 MacCorkle Avenue, SE, Charleston, WV 25304. The Plans' financial statements are prepared using fund accounting principles and the accrual basis of accounting, under which expenses are recorded when liabilities are incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Investments are carried at fair value as determined by a third-party pricing service utilized by the respective investment management companies. Investment transactions are accounted for on a trade-date basis. Unrealized gains and losses are included in investment income. Investment income is determined monthly and distributed to each of the defined benefit plans participating in the investment pools on the last day of the month in the form of reinvested shares.

The net pension obligation at June 30, 2007, amounted to approximately \$66 million, which is a decrease of approximately \$195 million from the prior year's obligation. The net pension asset at June 30, 2007, was approximately \$966 million, which is an increase of approximately \$961 million from the prior year's asset, primarily due to the contribution of \$807 to the TRS plan from the proceeds of the TSFA bond issuance.

The Plans are comprised of the following groups of defined benefit plans which provide substantially all employees of the State, its public education system, and other political subdivisions of the State with retirement and death and disability benefits:

- The Public Employees' Retirement System (PERS) is a multiple-employer, cost-sharing, public employee retirement system. The number of local government employers participating in PERS at June 30, 2007, was 531, including 109 cities and towns, 367 special districts, and 55 counties.
- The Deputy Sheriff Retirement System (DSRS) is a multiple-employer, cost-sharing, public employee retirement system which was established for all deputy sheriffs hired on or after July 1, 1998. Current employees were eligible to transfer from PERS. The State makes no employer contributions to DSRS.
- The Teachers' Retirement System (TRS) is a multiple-employer, cost-sharing, public employee retirement system. Fifty-five county public school systems, certain personnel of the thirteen State-supported institutions of higher education, West Virginia Department of Education, and boards of higher education participate in the TRS plan. Because the State provides substantially all the funding for TRS, the State follows the GASB Statement No. 27 reporting requirements for sole employer plans.
- The Public Safety Death, Disability, and Retirement Fund (PSDDRF), the State Police Retirement System (SPRS), and the Judges' Retirement System (JRS) are single-employer, public employee retirement systems.

## **Funding Policy**

Funding policies for all the Plans have been established and changed from time to time by action of the State Legislature. Actuarial valuations are performed to assist the Legislature in determining appropriate contribution rates. As a condition of participation in the Plans, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by CPRB. The following schedule summarizes each defined benefit plan's required contribution rates at June 30, 2007:

| Statutory Contribution Rates as a Percent of Covered Payroll |               |  |
|--|---------------|--|
| <u>System</u>  | <u>Member</u> | <u>Employer</u>  |
| PERS   | 4.5%          | 10.5%  |
| TRS  | 6.0%          | 15.0% State<br>15.0% Counties<br>15.0% Other Employers |
| PSDDRF   | 9.0%          | 15.0%  |
| SPRS   | 12.0%         | 12.0%  |
| JRS  | 10.5%         | Appropriated by the Legislature                        |

The State Supreme Court has required the State to fund the Teachers' Retirement System in an actuarially sound manner to eliminate the unfunded liability over a forty-year period beginning on July 1, 1994, and to meet the cash flow requirements of the TRS in fulfilling its future anticipated obligations to its members. The State Supreme Court has further ordered the State, through the Governor, to require the appropriate funding should the State Legislature fail to do so. Since this ruling, the Legislature has supplemented the funding of the TRS to meet this requirement.

To reduce the unfunded liabilities in the pension systems, the State has provided supplemental appropriations. In fiscal year 2007, the Public Safety Death Disability and Retirement Fund System was appropriated \$3.3 million in general revenue, and the Teachers' Retirement System was appropriated \$314 million in general revenue funds and \$807.5 million from the Tobacco Settlement Authority.

### **Annual Pension Cost, Funding and Net Pension Obligation**

The State's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were \$82,239,734, \$96,107,077, and \$83,406,764, respectively, equal to the required contributions for each year. The following table provides the annual pension cost and changes in net pension obligation for each defined benefit plan reported as a sole employer plan for the current year (expressed in thousands):

|   | <u>TRS</u>          | <u>PSDDRF</u>   | <u>SPRS</u>      | <u>JRS</u>       |
|---|---------------------|-----------------|------------------|------------------|
| Annual required contribution (ARC)                    | \$ 327,068          | \$ 6,227        | \$ 1,904         | \$ 3,088         |
| Interest on net pension obligation                    | 14,585              | 4,901           | (164)            | (212)            |
| Adjustment to ARC                                     | <u>(12,004)</u>     | <u>(5,265)</u>  | <u>185</u>       | <u>340</u>       |
| Annual pension cost (APC)                             | <u>\$ 329,649</u>   | <u>\$ 5,863</u> | <u>\$ 1,925</u>  | <u>\$ 3,216</u>  |
| ARC related contributions and appropriations          | <u>\$1,482,184</u>  | <u>\$ 5,360</u> | <u>\$ 2,175</u>  | <u>\$ 6,034</u>  |
| Percentage of APC Contributed                         | 449.62%             | 91.42%          | 112.99%          | 187.62%          |
| Net pension obligation (asset), July 1, 2006          | \$ 194,464          | \$66,358        | \$(2,157)        | \$(2,828)        |
| Increase (decrease) in net pension obligation (asset) | <u>(1,152,535)</u>  | <u>(511)</u>    | <u>(276)</u>     | <u>(2,818)</u>   |
| Net pension obligation (asset), June 30, 2007         | <u>\$ (958,071)</u> | <u>\$65,847</u> | <u>\$(2,433)</u> | <u>\$(5,646)</u> |

### Three-Year Trend Information

In accordance with GASB 27, the single-employer plans disclose the following (expressed in thousands):

|               | <u>Year Ended<br/>June 30</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation<br/>(Asset)</u> |
|---------------|-------------------------------|--|--|---|
| <u>TRS</u>    |                               |  |  |   |
|               | 2007                          | \$329,649                                | 449.62%                                      | \$(958,071)                                       |
|               | 2006                          | \$342,414                                | 105.29%                                      | \$ 194,464  |
|               | 2005                          | \$337,426                                | 100.68%                                      | \$ 212,593  |
| <u>PSDDRF</u> |                               |  |  |   |
|               | 2007                          | \$ 5,863                                 | 91.42%                                       | \$ 65,847   |
|               | 2006                          | \$ 11,406                                | 75.66%                                       | \$ 66,358   |
|               | 2005                          | \$ 28,139                                | 97.26%                                       | \$ 63,582   |
| <u>SPRS</u>   |                               |  |  |   |
|               | 2007                          | \$ 1,925                                 | 112.99%                                      | \$ (2,433)  |
|               | 2006                          | \$ 1,740                                 | 104.66%                                      | \$ (2,157)  |
|               | 2005                          | \$ 1,608                                 | 105.85%                                      | \$ (2,076)  |
| <u>JRS</u>    |                               |  |  |   |
|               | 2007                          | \$ 3,216                                 | 187.62%                                      | \$ (5,646)  |
|               | 2006                          | \$ 4,111                                 | 164.39%                                      | \$ (2,828)  |
|               | 2005                          | \$ 4,320                                 | 156.44%                                      | \$ (181)  |

### Funded Status and Funding Progress

The funded status of each plan as of June 30, 2006, the most recent actuarial valuation date, is as follows (expressed in thousands):

|   | <u>TRS</u>  | <u>PSDDRF</u> | <u>SPRS</u> | <u>JRS</u> |
|---|-------------|---------------|-------------|------------|
| Actuarial Value of Plan Assets          | \$2,174,464 | \$452,794     | \$30,747    | \$85,932   |
| Actuarial Accrued Liability (AAL)       | \$6,877,872 | \$506,828     | \$33,552    | \$91,820   |
| Unfunded AAL (UAAL)                     | \$4,703,408 | \$ 54,034     | \$ 2,805    | \$ 5,888   |
| Funded Ratio                            | 31.6%       | 89.3%         | 91.6%       | 93.6%      |
| Annual Covered Payroll                  | \$759,206   | \$ 11,128     | \$15,870    | \$ 8,029   |
| UAAL as a Percentage of Covered Payroll | 619.5%      | 485.6%        | 17.7%       | 73.3%      |

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information. The actuarial value of plan assets has been increasing over time relative to the actuarial accrued liabilities for benefits for each plan.



## Actuarial Methods and Assumptions

|                             | <u>TRS</u>                     | <u>PSDDRF</u>                    | <u>SPRS</u>                      | <u>JRS</u>              |
|-----------------------------|--------------------------------|----------------------------------|----------------------------------|-------------------------|
| Valuation date              | July 1, 2006                   | July 1, 2006                     | July 1, 2006                     | July 1, 2006            |
| Actuarial cost method       | Entry age cost                 | Entry age cost                   | Entry age cost                   | Entry age cost          |
| Asset valuation method      | Fair value                     | Fair value                       | Fair value                       | Fair value              |
| Amortization method         | Constant percentage of payroll | Constant percentage of payroll   | Constant dollar                  | Constant dollar         |
| Amortization period         | Through FY 2034, closed        | Through FY 2025, closed          | Through FY 2030, closed          | Through FY 2018, closed |
| Actuarial assumptions:      |                                |                                  |                                  |                         |
| Investment rate of return   | 7.50%                          | 7.50%                            | 7.50%                            | 7.50%                   |
| Projected salary increases: |                                |                                  |                                  |                         |
| Attributable to inflation   | 3.00%                          | 3.00%                            | 3.00%                            | 3.00%                   |
| Attributable to merit       | .50%-2.50%                     | 1.75%-3.00%                      | 1.75%-3.00%                      | 1.50%                   |
| Annual Annuity Adjustment   | None                           | 3.75%                            | 1.00%                            | 4.50%                   |
|                             |                                | Annual cost of living adjustment | Annual cost of living adjustment |                         |

## Pension Investments

Following is a summary of investment holdings by plan at the IMB. Such investments are recorded at fair value as more fully described in Note 4. Substantially all of the following investment pools are in excess of 5% of total investments for all plans as of June 30, 2007, (expressed in thousands):

|                         | <u>PERS</u>        | <u>TRS</u>         | <u>PSDDRF</u>    | <u>SPRS</u>     | <u>DSRS</u>     | <u>JRS</u>       |
|-------------------------|--------------------|--------------------|------------------|-----------------|-----------------|------------------|
| Large Cap Equity        | \$ 975,720         | \$ 649,125         | \$129,958        | \$10,154        | \$23,627        | \$ 26,586        |
| Non-Large Cap Equity    | 661,559            | 390,047            | 78,391           | 6,096           | 14,209          | 15,973           |
| International Equity    | 1,025,178          | 512,189            | 103,138          | 8,023           | 18,701          | 21,026           |
| Fixed Income            | 1,607,579          | 969,805            | 197,309          | 15,516          | 35,995          | 40,263           |
| Short-Term Fixed Income | <u>19,031</u>      | <u>1,117,210</u>   | <u>3,930</u>     | <u>564</u>      | <u>481</u>      | <u>280</u>       |
| Total                   | <u>\$4,289,067</u> | <u>\$3,638,376</u> | <u>\$512,726</u> | <u>\$40,353</u> | <u>\$93,013</u> | <u>\$104,128</u> |

The following investment managers have investments at fair value in excess of 5% of the net assets of the Teachers' Defined Contribution Retirement System as of June 30, 2007, (expressed in thousands):

|                                       |                  |
|---------------------------------------|------------------|
| American Funds Bond Fund A            | \$ 78,791        |
| American Funds Growth Fund A          | 145,564          |
| American Funds Wash Mutual A          | 82,321           |
| Federated Max Cap Institutional       | 72,434           |
| Franklin Income Fund A                | 99,128           |
| Valic Fixed Annuity Option            | 266,099          |
| Vanguard Money Market Prime Portfolio | 52,283           |
| Other (Less than 5%)                  | <u>97,823</u>    |
| Total                                 | <u>\$894,443</u> |

## **Defined Contribution Plans**

### **The Teachers' Defined Contribution Retirement System (TDCRS)**

TDCRS, administered by the Consolidated Public Retirement Board, is a multiple-employer defined contribution retirement system primarily covering the full-time employees of the State's 55 county public school systems, the State Department of Education, and the School for the Deaf and the Blind, who were hired between July 1, 1991, and June 30, 2005. TDCRS members also include former TRS plan members, including higher education employees, who have elected to participate in the TDCRS plan. There are approximately 21,905 and 22,343 members in the TDCRS plan at June 30, 2007 and 2006, respectively. TDCRS retirement benefits depend solely on amounts contributed to the plan plus investment earnings. TDCRS closed participation to new members effective June 30, 2005.

State legislation requires enrolled employees to contribute 4.5% of their gross compensation and the employers contribute 7.5% of covered members' gross compensation from amounts allocated to the employers through the State School Aid Formula. Employer contributions for each employee (and interest allocated to the employee's account) become partially vested after six years and fully vested after twelve years of completed service. Employer contributions and earnings thereon forfeited by employees who leave employment prior to becoming vested are available, in the event the employee does not return to active participant status within five years, to reduce the employer's current-period contribution requirement. Any such forfeitures arising from contributions plus earnings thereon, will be used to reduce future employer contributions.

The TDCRS investments are held and managed by an investment company as the third party administrator for the plan. As prescribed by West Virginia Code, the TDCRS investments are placed in participant accounts and the participants direct the investment of their account by selecting from a list of plan mutual funds or a long-term fixed investment option. The TDCRS provides members with a choice of ten separate investment options made up of a fixed income mutual fund, balanced mutual fund, large cap mutual funds, mid cap mutual fund, small cap mutual fund, international mutual fund, money market fund and a guaranteed insurance fixed annuity. Three Profile funds (conservative, moderate, or aggressive) allow participants to invest their contributions according to their risk tolerance.

The TDCRS investments are carried at fair value as determined by a third-party pricing service utilized by an investment management company. Investment income for the TDCRS is determined monthly and distributed to the individual participant accounts.

### *Concentration of Credit Risk*

As of June 30, 2007 and 2006, the TDCRS has investment balances with the following issuers which were greater than 5% of the total investment balance of the TDCRS (expressed in thousands):

| <u>Mutual Fund</u>                    | <u>2007</u>      | <u>2006</u>      |
|---------------------------------------|------------------|------------------|
| American Funds Growth Fund A          | \$145,564        | \$117,538        |
| American Funds Wash Mutual A          | 82,321           | 64,230           |
| Federated Max Cap Institutional       | 72,434           | 57,664           |
| Franklin Income Fund - A              | 99,128           | 78,432           |
| American Funds Bond Fund A            | 78,791           | 66,850           |
| Valic Fixed Annuity Option            | 266,099          | 244,816          |
| Vanguard Money Market Prime Portfolio | 52,283           | 45,422           |
| Other (less than 5%)                  | <u>97,823</u>    | <u>61,060</u>    |
|                                       | <u>\$894,443</u> | <u>\$736,012</u> |

### *Custodial Credit Risk - Cash Deposits*

The TDCRS' cash deposits with financial institutions were \$23,000 and \$810,000 at June 30, 2007 and 2006, respectively. These deposits, which had a bank balance of \$23,000 and \$810,000 at June 30, 2007 and 2006, respectively, are either insured by the Federal Deposit Insurance Corporation or collateralized with securities held in TDCRS' name by its agent. Additionally, the TDCRS has deposits with the West Virginia Treasury of \$3,074,000 and \$3,621,000 at June 30, 2007 and 2006, respectively.

### *Interest Rate Risk*

As of June 30, 2007, the TDCRS had the following investments and maturities (expressed in thousands):

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> |             |              |
|------------------------|-------------------|---|-------------|--------------|
|                        |                   | <u>Less than 1</u>                      | <u>1 -5</u> | <u>6 -10</u> |
| Mutual Funds           | \$894,443         | \$894,443                               | \$—         | \$—          |

For the year ended June 30, 2007, the approximate payroll of State employees covered by TDCRS was \$632 million and total covered payroll for both the TDCRS and TRS was approximately \$1.4 billion. Both the employees and employers made the required contributions amounting to \$30.6 million and \$55.1 million, respectively, or 4.84% and 8.71% of covered payroll.

### Teachers' Insurance and Annuity Association

The Teachers' Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA-CREF), a privately administered multiple employer defined contribution retirement plan, provides individual retirement fund contracts for each eligible participating employee. Eligible employees consist mainly of state college/university faculty and staff. For the year ended June 30, 2007, contributions were approximately \$30.9 million from the covered employees and approximately \$30.9 million from the thirteen participating institutions from the State of West Virginia.

Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total annual required contribution and the amount paid is 6% of the employee's annual salary and is established by the Board of Trustees of the University System of West Virginia and the Board of Directors of the State College System. The State has no further liability once annual contributions are made.

## **NOTE 13**

### **OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 12, the State provides certain health care and other insurance benefits, in accordance with State statutes, for retired employees. Substantially all employees hired prior to July 1, 2001, may become eligible for these benefits if they reach normal retirement age while working for the State. The State provides health care credits against monthly health insurance premiums of certain retirees based on various factors, including unused sick leave (see Note 1, “Compensated Absences”) at the time of retirement. It is the State’s practice to record a liability for expected conversion of sick leave to health care premiums.

According to West Virginia State Code, employees hired prior to June 30, 1988, can receive health care credit against 100% of their health care coverage. Employees hired between June 30, 1988, and July 1, 2001, can receive health care credits against 50% of their health care cost. Employees hired July 1, 2001, or later, may not convert sick leave into a health care benefit. Expenditures recognized for this fiscal year related to retiree premium sick leave conversion, were approximately \$18 million for approximately 5,300 eligible retirees.

In addition to the pension benefits allowing certain retirees to convert sick leave to health care premiums, State statutes provide that employees who retire may continue participation in the State’s health insurance plan subject to certain length of service and participation requirements. Such employees are eligible to participate in the public employees’ insurance program by making the premium contribution specified by the PEIA Finance Board. Approximately 33,900 retirees and 72,500 active plan members met those eligibility requirements at June 30, 2007.

The State implemented GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” in 2007. In conjunction with the implementation of GASB Statement No. 43, the State established the Retiree Health Benefit Trust Fund (RHBT) under West Virginia Code §5-16D-2, an irrevocable trust, to account and report for the other postemployment benefits (OPEBs) provided under the multi-employer cost-sharing plan. The RHBT is reported as a major fiduciary fund in the accompanying basic financial statements. The PEIA Finance Board was assigned the authority to establish and amend contribution requirements of the plan members and the participating employers, and PEIA administers the plan. The legislation requires the RHBT to determine through an actuarial study, as prescribed by GASB No. 43, the actuarial required contribution (ARC) which shall be sufficient to maintain the RHBT in an actuarially sound manner. The ARC, which is reviewed and approved by the PEIA Finance Board, shall be allocated to respective employers who are required by law to remit at least the minimum annual premium component of the ARC.

The RHBT began operations July 1, 2006, and is included in the fiduciary funds financial statements. Accordingly, the basic financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for governmental entities as prescribed or permitted by the GASB. Revenues are derived mainly from contributions from plan members and employer contributions. Member's contributions are recognized in the period in which the contributions are due. Employer contributions to the RHBT are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable. RHBT cash and cash equivalents principally consist of the deposits in the BTI pooled funds recorded at fair value as more fully described in Note 4.

The RHBT provides the following basic retiree benefit coverage to all participants: hospital, surgical, group major medical, basic group life, accidental death, dental, and prescription drug coverage for retired employees of the State and various non-State governmental agencies and their dependents.

Revenues collected by RHBT shall be used to fund current OPEB healthcare claims and administrative expenses with residual funds held in trust for future OPEB costs. The rates charged must generate sufficient revenues to not only meet all expected expenses, including insurance, administrative expenses, and incurred but unreported claims of the RHBT, but also include the amounts necessary to fund the unfunded obligation of the Plan over an amortization period not to exceed 30 years. The annual contractually required rate for State agencies and other participating employers was set at \$91.54 and \$144.48 per active employee per month effective July 1, 2007. There are 572 participating employers. The total ARC for the year ended June 30, 2007, was approximately \$649 million, and did not reflect the impact of transferring Medicare plan participants to a MAPD and other substantive plan changes that were made subsequent to the 2007 ARC calculation. The total contributions to the plan were \$189 million.

Historically, the obligation associated with retiree health care benefits has been funded and recognized for financial statement purposes on a pay-as-you-go basis. The retiree premiums currently pay approximately 35% of health care claims for retirees and their dependents. The balance of the cost is funded by the State and other participating employers through a retiree subsidy, which is included in the premium charged for the coverage of each active employee. Accordingly, the liability related to providing such benefits is not accrued in the accompanying financial statements. During the year ended June 30, 2007, expenditures/expenses for such benefits approximated \$141 million net of participant contributions.

West Virginia Code §5-16-25 requires the Finance Board of PEIA to maintain a reserve of 10% of projected plan costs for general operation purposes and to provide future plan stability. As of June 30, 2007, PEIA has sufficient net assets to comply with this code section. In the event the reserve fund exceeds 15% of the actuarial recommended reserve of 20% to 25% of total projected costs, the excess was to be remitted to the State's general fund. Senate Bill 129, which became effective July 1, 2007, amended §5-16-25 indicating that the excess reserve funds shall be transferred to the West Virginia Retiree Health Benefit Trust Fund in fiscal 2008. The impact of the accounting for this amended legislation will be reflected in the fiscal year 2008 basic financial statements as an expense in the general fund financial statements and contribution revenue in the RHBT financial statements. Subsequent to June 30, 2007, \$108 million of such excess reserve funds have been transferred to the RHBT.

The RHBT separately issued financial statements include a schedule of funding progress and a schedule of employer contributions presented as required supplementary information which presents information about the funding progress in relation to the AAL and the amounts contributed to the plan by employers in comparison to the ARC. Complete RHBT financial statements, including additional detailed disclosures, may be obtained directly from their administrative offices at RHBT, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710.

## **NOTE 14**

### **RISK MANAGEMENT**

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and life coverage; and natural disasters. The State of West Virginia operates three significant insurance enterprise funds: Board of Risk and Insurance Management (BRIM), Public Employees' Insurance Agency (PEIA), and Workers' Compensation Fund (WCF). The State also operates AccessWV, which provides health care coverage consistent with comprehensive coverage to every eligible person who is not eligible for medicare. AccessWV is operated so as to qualify as an acceptable alternative mechanism under the Federal Health Insurance Portability and Accountability Act and as an option to provide health insurance coverage for individuals eligible for the federal health care tax credit established by the Federal Trade Adjustment Assistance Reform Act of 2002 (Section 35 of the Internal Revenue Code of 1986). AccessWV total unpaid claims and claims adjustment expense liability at June 30, 2007, was under \$300,000. The State also has a Patient Injury Compensation Fund (PICF), an agency fund of the State, administered by BRIM. The PICF does not receive claims until an award becomes final and all reasonable means of recovery have been exhausted. The PICF works on a "claims filed" basis and no claims have been filed as of June 30, 2007, accordingly the actuarial estimate of the claims reserve at such date is zero. The amount of settlements in the major insurance enterprise funds have not exceeded insurance coverage in the past three years.

#### **Description of the Funds**

##### Board of Risk and Insurance Management

BRIM provides a property and liability insurance program for its member agencies. BRIM has general supervision and control over the insurance of all State property, including that of the institutions of higher education and the discretely presented component units. In addition, the political subdivisions in the State and certain other charitable and public service organizations may request coverage by PEIA. Types of coverage provided by BRIM have been expanded over time to include medical malpractice, automobile liability, and coal mine subsidence reinsurance. At the end of the fiscal year, 1,388 organizations participated in the BRIM risk pool.

Underwriting and rate setting policies are established by BRIM. The cost of all coverage as determined by BRIM shall be paid by the participants. The BRIM risk pool retains a \$1 million per occurrence coverage maximum on all third-party liability claims. In the normal course of business, BRIM seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable operating results by reinsuring levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Excess coverage under



this program is limited to \$200 million per event, subject to limits on certain property. Reinsurance permits recovery of a portion of losses from reinsurers; however, it does not discharge the primary liability of BRIM as direct insurer of the risks insured. BRIM does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. There have been no significant reductions in insurance coverage from the prior year.

#### Public Employees' Insurance Agency

PEIA provides a program of health, life, and prescription insurance for its member agencies. PEIA provides coverage for all participating State employees, including those of the institutions of higher education and the discretely presented component units. In addition, the political subdivisions in the State and certain other charitable and public service organizations may request coverage by PEIA. PEIA's general objectives are to provide a basic employee benefit insurance program which includes hospital, surgical, major medical, prescription drug, and basic life and accidental death for all participating employers and employees. Underwriting and rate setting policies are established by PEIA. The cost of all coverage, as determined by PEIA, shall be paid by the participants. Coverage under these programs is limited to \$1 million lifetime for health and \$500,000 of life insurance coverage. Premiums are established by PEIA at varying rates dependent upon, among other things, coverage required, number of dependents, State vs. non-State employees, and active employee vs. retired employee. PEIA retains all risks for the health and prescription features of its indemnity plan. PEIA has transferred the risks for health and prescription coverage for those individuals covered by the Managed Care Organization (MCO) Plan to the plan providers. The risks of the life insurance coverage have been transferred to a third-party insurer. PEIA presently charges equivalent premiums for participants in either the indemnity plan or the MCO Plan. Altogether, PEIA insures approximately 172,000 individuals, including participants and dependents.

#### Workers' Compensation Fund

The Workers' Compensation Commission (WCC) was an agency of the State of West Virginia. On February 16, 2005, the West Virginia legislature enacted "Senate Bill 1004" which established a framework for the privatization of the state's monopolistic workers' compensation system and created the means to transition the Workers' Compensation Commission into a domestic employers' mutual insurance company. On December 31, 2005, the West Virginia WCC ceased to exist as a separate state entity and all regulatory duties for workers' compensation insurance transitioned to the Office of the West Virginia Insurance Commissioner (the Insurance Commissioner), as did the administrative oversight of certain assets and liabilities of the former WCC. The Industrial Council was established by Senate Bill 1004 to assist the Insurance Commissioner in the regulation of the workers' compensation system. Any other applicable State agency or department, whose functions are necessary for the regulation of the workers' compensation insurance industry,

transferred to the Industrial Council including, but not limited to, the following WCC functions: rate making, self-insurance, office of judges, and board of review. The Industrial Council consists of five voting members appointed by the governor, with the advice and consent of the Senate, who meet the prescribed requirements and qualifications.

On January 1, 2006, the former WCC became a private sector insurance company named BrickStreet Mutual Insurance Company (BrickStreet). BrickStreet's liabilities consist of all claims payment obligations (indemnity and medical expenses) for all claims, actual and incurred but not reported, with a date of injury on or after July 1, 2005. However, any payments made on these claims before January 1, 2006, were incurred by the WCF and BrickStreet liabilities began with claims payments becoming due and owing on said claims on or after January 1, 2006. A portion of the WCC's assets transferred to BrickStreet, included funding for BrickStreet's initial capital, as well as the transfer of a portion of the employees to the company. The remainder of the assets and employees transferred to the Industrial Council and the Insurance Commissioner.

The "workers' compensation old fund" (Old Fund) was created for those funds transferred to the offices of the Insurance Commissioner and those funds due and owing the workers' compensation fund as of June 30, 2005. The Old Fund assets and liabilities are the responsibility of the State and did not novate or otherwise transfer to BrickStreet. Disbursements from the Old Fund are related to the liabilities and appropriate administrative expenses necessary for the administration of all claims, actual and incurred but not reported, with a date of injury on or before June 30, 2005.

Senate Bill 1004 also created the "workers' compensation uninsured employers' fund," "self-insured guaranty risk pool," "self-insured security risk pool," "private carrier guaranty fund," and an "assigned risk fund" in the State treasury. For financial statement presentation purposes, these funds as well as the "Old Fund" are included as the Workers' Compensation Fund (WCF) in the Proprietary Funds financial statements of the State.

Pursuant to §23-2c-16 of the West Virginia Code, BrickStreet shall serve as the initial third-party administrator of the WCF from the termination of the WCC and thereafter for a term of at least six months but not more than three years pursuant to an agreement to be entered into between the Insurance Commissioner and the mutual company prior to the termination of the WCC. An affiliated company of BrickStreet, BrickStreet Administrative Services, has served as the administrator of the state's workers' compensation related fund, since January 1, 2006. BrickStreet was paid a fee for services provided. Sedgwick, Wells Fargo and American Mining took over these duties as of January 1, 2008.

### **Unpaid Claims Liabilities**

The three insurance funds establish claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but

not settled, and of claims that have been incurred but not reported. The estimates of the claims liabilities include amounts for nonincremental claims adjustment expense. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not result in an exact amount. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. Accordingly, the actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the financial statements. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Information concerning the changes in those aggregate liabilities for the past two fiscal years is shown in the following table (expressed in thousands):

|  | <b>BRIM</b> |             | <b>PEIA</b> |             | <b>WCF</b>  |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
|  | <b>2007</b> | <b>2006</b> | <b>2007</b> | <b>2006</b> | <b>2007</b> | <b>2006</b> |
| Unpaid claims and claims adjustment expense liability, beginning of year                       | \$174,073   | \$185,069   | \$ 60,122   | \$ 65,399   | \$3,259,100 | \$3,636,300 |
| Privatized portion of liability  |             |             |             |             |             | (139,135)   |
|  |             |             |             |             |             | 3,497,165   |
| Incurred claims and claims adjustment expense:   |             |             |             |             |             |             |
| Provision for insured events of the current fiscal year  | 56,081      | 58,319      | 359,842     | 518,094     | 2,510       | 138,521     |
| Increase (decrease) in provision for insured events of prior fiscal years                      | (20,945)    | (21,243)    | (330)       | 1,300       | (105,762)   | (117,668)   |
| Amortization of discount   | —           | —           | —           | —           | 154,538     | 170,970     |
| Total incurred claims and claims adjustment expense  | 35,136      | 37,076      | 359,512     | 519,394     | 51,286      | 191,823     |
| Payments:  |             |             |             |             |             |             |
| Claims and claims adjustment expense attributable to insured events of the current fiscal year | 12,416      | 10,097      | 320,480     | 460,973     | 194         | 18,471      |
| Claims and claims adjustment expense attributable to insured events of the prior fiscal year   | 37,229      | 37,975      | 46,155      | 63,698      | 328,792     | 394,332     |
| Total payments   | 49,645      | 48,072      | 366,635     | 524,671     | 328,986     | 412,803     |
| Change in provision for Disabled Workers' Relief Fund receivable                               | —           | —           | —           | —           | —           | (17,085)    |
| Total unpaid claims and claims adjustment expense liability, end of year                       | \$159,564   | \$174,073   | \$ 52,999   | \$ 60,122   | \$2,981,400 | \$3,259,100 |

Neither BRIM nor PEIA discount their estimated claims liability. At June 30, 2007, the total undiscounted claims liability for WCF approximated \$4.8 billion. Invested assets of WCF are not sufficient at current investment rates to retire the claims liability and WCF has a significant deficit. GASB standards provide that, if discounting is used, the pool should use a rate that is determined by giving consideration to such factors as the pool's expected settlement rate for those liabilities and its expected investment yield rate. Based on the expected investment yields on WCF's investment portfolio, the estimated liability for unpaid claims and claim adjustment expenses (claims liability) has been discounted using a rate of 5%. If discounting of the WCF claims liability was limited to anticipated investment income, the claims liability would have increased by approximately \$1.67 billion to a claims liability of approximately \$4.65 billion, and the total deficit would have increased to approximately \$3.48 billion at June 30, 2007.

The Insurance Commission management believes the discounted liability for unpaid claims and claims adjustment expenses is adequate. However, due to the inherent variability of the assumptions used to estimate this liability, actual incurred losses and loss adjustment expenses may vary significantly from the estimated amount included in the WCF's financial statements.

### **Fund Deficit and Deficit Funding Plan for Workers' Compensation**

As stated earlier in this note, the WCC was terminated effective December 31, 2005, and its powers were transferred to the Industrial Council established by Senate Bill 1004 to assist the Insurance Commissioner in the regulation of the workers' compensation system. Senate Bill 1004 further established a workers' compensation debt reduction fund in the State treasury for the deposit of monies received after June 30, 2005, including certain funds designated in Code §4-11a-2 (d): \$30 million to be received annually until 2025 from the tobacco master settlement agreement, and Code §29-22A-10, 10b: an estimated \$11 million to be received annually from the video lottery income, and Code §11-13V-4: new and additional severance taxes imposed estimated to yield an approximate \$90.2 million annually, Code §11-21-96: personal income tax proceeds of approximately \$45 million annually, and Code §23-2C-3 (f) (3): monthly premium surcharges to be collected for all West Virginia employers expected to yield \$54 million annually. On March 10, 2007, Senate Bill 185 ceased the tobacco settlement payments to the WCF and replaced those revenues with \$54 million in annual personal income tax proceeds in addition to the personal income proceeds already dedicated to the WCF. Amounts actually received in FY 2007 approximated \$268.6 million. The net proceeds from collection of these monies are to be dedicated to paying the unfunded liability in the workers' compensation fund until fully paid or paying debt service on bonds sold to raise funds to pay the unfunded liability in the workers' compensation fund.

## **Required Supplementary Information**

Each of the three risk pools has issued separate, audited financial reports on its operations. Those reports include the required supplementary information concerning the reconciliation of claims liabilities by type of contract and ten-year claim development information.

Complete financial statements of the individual insurance enterprise funds, including additional detailed disclosures, can be obtained directly from their respective administrative offices.

Board of Risk and Insurance Management  
90 MacCorkle Avenue, S.W.  
Suite 203  
South Charleston, West Virginia 25303

Public Employees' Insurance Agency  
Building 5, Room 1001  
1900 Kanawha Boulevard, East  
Charleston, West Virginia 25305

Workers' Compensation Fund  
c/o Insurance Commission  
1124 Smith Street  
Charleston, West Virginia 25301

## NOTE 15

### COMMITMENTS AND CONTINGENCIES

#### Environmental Protection Claims

The State, through the Department of Environmental Protection (DEP), maintains several environmental protection programs including a bonding program for coal operators for mine reclamation, abandoned oil and gas well bonding program, a Landfill Closure Assistance Program (LCAP), and an underground storage tank program. Under such programs, the State charges various fees, premiums, and other assessments, and sets bonding amounts that operators are required to maintain to ensure that funds are available in the event that the operator is unable to fulfill its environmental protection responsibilities. Based upon the State's estimate of the liability for incurred losses under the programs, the bonding amounts and funding structures established by the State have proven inadequate to fund the actual costs of environmental protection that the State has incurred in acceptance of the related insurance risk. As a result, the State has been required at various times to increase fees and bonding rates. Administrative changes in permitting regulations governing the industries and businesses benefiting from the State's maintenance of such environmental protection programs are constantly under review.

Management has estimated the total cost of these reclamation efforts to approximate \$543.9 million at June 30, 2007. Approximately \$32.5 million is available to pay current reclamation costs. Because it is not expected that the remaining estimated reclamation costs will be liquidated by expendable available financial resources, a \$511.4 million obligation is reported as a noncurrent liability in the governmental activities on the statement of net assets. As such, the State has recorded the following liabilities related to the above programs at June 30, 2007, (expressed in thousands):

|  |                  |
|--|------------------|
| Mine Reclamation Program                           | \$386,300        |
| Oil and Gas Well Program                           | 65,372           |
| Landfill Closure Assistance Program                | 83,414           |
| Underground Storage Tanks                          | <u>8,835</u>     |
| Total Environmental Liability                      | 543,921          |
| Less Current Portion                               | <u>(32,538)</u>  |
| Environmental Liability,<br>Net of Current Portion | <u>\$511,383</u> |

#### Mine Reclamation Program

The Special Reclamation Program (mine reclamation program) was created to enable compliance with a federal mandate that allows the State to operate an alternative bonding program to ensure that mining sites are reclaimed in accordance with federal and State

regulations. This program created funds for reclamation costs if the operator does not perform the reclamation and the respective bond is forfeited by the operator. In addition, the State also accrues for active water treatment sites under this program. The State's estimated liability for these water treatment sites assumes a 20-year treatment period until the sites are properly reclaimed since the treatment costs beyond a 20-year period cannot be reasonably estimated. The actual length of water treatment and the actual ultimate liability could differ significantly from this estimate.

The costs associated with this program are offset by operator bonds, as previously mentioned, and a tax imposed on clean mined coal, currently seven cents per ton. The Special Reclamation Fund plans to make expenditures for reclamation and water treatment systems as funding becomes available. The Legislature further established a Special Reclamation Fund Advisory Council (the Council). The Council's role is to develop a financial plan that ensures long-term stability of the special reclamation program. The Legislature further requires actuarial studies of the fund's fiscal soundness every two years.

As of June 30, 2007, the liability associated with this program is approximately \$386.3 million discounted using a 5% discount rate. The undiscounted liability is approximately \$611.3 million as of June 30, 2007. The cash flows are currently projected out 20 years since an estimate beyond a 20-year period cannot be reasonably estimated. Given the long-term nature of this obligation and common practice in the private sector for asset retirement obligations, management deemed that it is preferable to record this obligation on a discounted basis since relevant cash flow information is available.

#### Oil and Gas Well Program

State Code states that oil and gas wells that are orphaned and abandoned that are an immediate threat to the environment should be properly plugged or reclaimed as funds become available in the oil and gas reclamation fund. Therefore, the State currently records a liability for Class I oil and gas wells which represent an immediate threat to the environment. Class II oil and gas wells, representing a nonimmediate threat to the environment, are mandated to be plugged if resources become available. The plugging of Class III oil and gas wells may be deferred indefinitely. Due to financial resources not being available in the past, or any foreseen availability in the future, the probability of available resources ever being used to plug Class II or III wells is remote. As of June 30, 2007, this liability, estimated at \$65 million, is recorded on an undiscounted basis since the timing of future cash outflows cannot be estimated.

#### Landfill Closure Assistance Program (LCAP)

The LCAP was established to provide landfill closure assistance to owners/permittees or landfills that were required to cease operations pursuant to certain statutory closure deadlines for noncomposite lined facilities. The program designs and constructs all closure-

related activities necessary to provide sufficient leachate management, sediment and erosion control, gas management, groundwater monitoring and final cover cap on noncomposite lined landfills, as funds are available. The LCAP is closed to new applications; however, through the legislative process one landfill has been added to the original inventory. As of June 30, 2007, the liability is estimated at \$83 million and is projected to be paid through fiscal year 2043. In addition, the State, through the Solid Waste Management Board (the Board), operated one landfill that was closed in 1993. The Board made an application through the Department of Environmental Protection for closure assistance from the LCAP. The Board's application was accepted by the LCAP and since then the LCAP has paid the landfill closure costs. The Board continues to pay for certain postclosure monitoring costs, estimated to be \$197,030 over the next 24 years, which are recorded as a postclosure care liability of the Board in the financial statements of the State's proprietary discretely presented component units. The remaining liabilities for postclosure assistance under the LCAP are estimated at \$1.2 million.

#### Underground Storage Tank Program

The insurance fund for the operators of the underground storage tanks has discontinued accepting new operators into the fund. In response to a lawsuit filed against the fund, the fund's assets have largely been paid out on a pro rata share to those insured. DEP continues to pursue additional sources of money from the Governor and the Legislature, and most recently requested \$8 million in a supplemental appropriation for FY 2007 that will allow the insured sites to be remediated in an approved voluntary remediation plan or other cost-effective manner. DEP's plan also requires the claimants to submit a schedule for the completion of the work, and it is DEP's objective to have a clearly determined date by which remediation will be accomplished at all sites and no further reimbursements required. In this regard, it should be noted that eight of 58 sites insured have been issued "no further action" letters, meaning they have been cleaned up to the required standards and will no longer incur additional cost. DEP believes requiring these sites to participate in an approved plan that requires the most cost-effective method of cleanup will result in an overall cost savings to the State and still protect the public health and environment. As of June 30, 2007, \$8 million has been recorded as a liability in the accompanying financial statements.

The nature of the environmental liabilities requires the use of estimates and assumptions by management. Accordingly, it is at least reasonably possible that a significant change in the estimate will occur in the near term resulting from various factors including inflation, deflation, technology, or assumption changes, or change in applicable laws or regulations.

#### Other Contingencies

In addition to the \$543.9 million in environmental protection claims, the State has recorded an obligation in the amount of \$119.2 million for the payment of other contingencies. Such



other contingencies include, but are not limited to, claims assessed against the State for property damage and personal injury, alleged torts, alleged breaches of contract, and other alleged violations of state and federal laws and regulations. These claims are based on management's evaluation of the nature of such claims and consideration of historical loss experience for the respective types of action. Certain other claims may be covered by the State's insurance carrier under its general liability or medical malpractice coverage.

In an action brought by the United States of America versus the State, the United States prevailed on its claim that the State owed \$11.9 million to the federal government, attributable to overcharges made to various agencies for the employees' share of retirement contributions made by the U.S. Government on behalf of federally funded State employees. At issue is accrued interest which has been assessed by the U.S. Department of Health and Human Services (DHHS) on the principal amount. The interest assessment was set aside but DHHS has filed a motion for reconsideration. Exposure is hard to quantify at this time. The State intends to vigorously contest the case; however, the potential exposure for this case should the State be unsuccessful is estimated by management to be \$47.8 million. As of June 30, 2007, a \$47.8 million liability related to this matter has been accrued.

An administrative appeal and a class action suit are pending in the circuit court of Kanawha County on behalf of the members of the 42<sup>nd</sup> through the 45<sup>th</sup> Cadet Classes of the West Virginia State Police, each of whom are seeking to be moved from the West Virginia State Police Retirement System (Plan B), to the more financially advantageous West Virginia Public Safety Death, Disability, and Retirement Fund (Plan A). The financial impact of a judicial ruling conferring some or all of the relief sought by the petitioners had been estimated to increase the liabilities in the West Virginia Public Safety Death, Disability, and Retirement Fund by approximately \$75 million. Moreover, transfers of participants from Plan B into Plan A in a manner contrary to plan provisions could raise plan qualifications issues with the Internal Revenue Service. Plan disqualification could potentially result in substantial tax consequences such as the plan's trust income being subject to tax, taxable employer contributions, taxable benefit distributions to participants and other negative ramifications. A Circuit Court Judge has entered an Order staying any further action in the class action suit until the administrative appeal has been resolved. On June 7, 2007, a Circuit Court Judge issued an Order of Certification in the administrative appeal in which the Judge found in the Board's favor as a matter of law; however, the Judge ordered the petitioners to appeal the issue to the West Virginia Supreme Court of Appeals.

On April 9, 2005, the West Virginia Legislature enacted House Bill 2984, which authorized an election for the potential merger and consolidation of the Teachers' Defined Contribution Retirement System (TDC) with the State Teachers' Retirement System (TRS). The members voted to merge the retirement systems according to the house bill. During May 2006, a lawsuit was filed in Kanawha County Circuit Court by TDC members opposed to the merger.

On January 25, 2007, a Circuit Court Judge entered an order declaring portions of the Teachers' Retirement Equity Act "TREA" unconstitutional and therefore null and void. The Legislature is currently exploring alternatives to resolve the issue. The impact on the unfunded liability of the TRS plan is unknown at this time.

Public Employees' Insurance Agency (PEIA) has reached a settlement with its former Prescription Benefit Manager (PBM) in a dispute that involved prescription drug rebates and other matters. The provisions of the settlement agreement resulted in a net award to PEIA in the amount of \$3,085,000.

There are several cases against the State Tax Department involving tax years 2003 through 2007. Collectively the estimated exposure for these cases is approximately \$155.9 million. These matters are being vigorously defended but recovery by the claimants is possible. As of June 30, 2007, a \$27.9 million liability has been accrued related to these matters. Subsequent to year end, \$24.3 million has been paid to the claimants.

An employer who has been granted self-insured status for workers' compensation insurance coverage must post security with the WCF for an actuarially determined amount of their liabilities incurred with dates of injury prior to July 1, 2004. Payments made for claims of employees of defaulted self-insured employers for injuries prior to July 1, 2004, will be made from the Self-insured Security Pool established by Legislative Rule 19. The assets of the Security Pool consist of the proceeds received from the security held by the WCF and any necessary assessments made to active self-insured employers for the default of a self-insured employer.

Payments for the injuries of defaulted self-insured employers incurred after July 1, 2004, will be made by the Self-insured Guaranty Pool; however, any self-insured employer who fails the analytical financial review will also be required to post security to the Guaranty Pool on any workers' compensation liabilities incurred after July 1, 2004. The Self-insured Guaranty Pool is funded through quarterly assessments to self-insured employers and the proceeds received from the security held. To the extent a self-insured employer cannot meet its obligations under the Law, the two self-insured pools previously discussed remain contingently liable for all policy benefits. The only sources of revenue permitted under the Law to fund the Security Pool and the Guaranty Pool must be obtained from self-insured employers. Self-insured employers are considered joint and severally liable for the obligations of a defaulted self-insured employer. The amount has not been included in the estimated liabilities for unpaid claims and claim adjustment expense because the likelihood of future self-insurer defaults has not been estimated.

It is not possible to predict with certainty the ultimate outcome of all lawsuits or claims pending or threatened against the State, including those discussed above, some of which

may involve potentially significant amounts. Based on the current status of all legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's overall financial position. However, depending on the amount and timing of the resolution, some or all of these matters could materially affect the State's change in financial position or cash flows for a particular period.

### **Federal Grants**

Payments received under the reimbursement arrangements with Medicaid are subject to retroactive audit and adjustment. Management believes that adequate provisions have been made for reasonable adjustments that may result from regulatory reviews and disallowed costs. However, laws and regulations governing this program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimated settlements will change by a material amount in the near term. Management believes it is in compliance with all applicable laws and regulations, except for the matter discussed in the paragraph below, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicaid program.

State management discovered an error in its payment formula for school-based health service payments. This matter is currently under review by certain government agencies. State management is of the opinion that the effect of these reviews will not be material to the financial position of the State. Based on management's best estimate, approximately \$13 million has been accrued at June 30, 2007; however, management is unable to quantify the ultimate amount that it may need to repay the federal government and not amount to date has been specified by the reviewing government agencies.

During the fiscal year ended June 30, 2006, State management discovered certain errors and issues regarding a potential liability to the federal government. This matter is currently under review by certain State government agencies. As a result of the review, WORKFORCE West Virginia has recorded an estimated liability in the amount of approximately \$6.5 million which management believes is adequate to cover the amounts which will be required to be repaid to the federal government. This liability has resulted from a number of events that have involved the WORKFORCE West Virginia, the former Bureau of Employment Programs, the former Governor's Workforce Investment Division, and seven subrecipient Workforce Investment Boards. The issues identified relate to the overexpenditure of federal grant funds, insufficient supporting documentation for qualifying expenditures charged to federal grants, improper charging of federal grant funds

for non-allowable costs, and a lack of unrestricted monies to cover administrative costs related to the programs. In addition to these liabilities, \$3.3 million has been committed to fund existing contracts and subrecipient grant awards that are in excess of available federal grant funding.

As of June 30, 2007, WORKFORCE agreed to replenish certain federal grant funds from state general revenues of approximately \$3.3 million. Subsequent to year-end WORKFORCE agreed to additional replenishing of federal funds using State general revenues of approximately \$2.3 million. As of the date of this report, WORKFORCE has received \$5.8 million State general revenues to cover the deficits.

WORKFORCE has a remaining \$700 thousand accrued for issues related to the WORKFORCE Investment Boards. The USDOL and WORKFORCE are currently negotiating the liability for the fiscal year ended June 30, 2006, which is considered to range from \$400 thousand to \$4.4 million. Furthermore, WORKFORCE through its internal monitoring identified significant issues with the WORKFORCE Investment Boards for the year ended June 30, 2007.

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and other federal awards. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for allowable purposes. The State provides for estimates of any material disallowance arising in connection with the operation of these federally funded programs as such amounts become reasonably estimable. Federal awards are subject to financial and compliance audits under either the federal Single Audit Act or by grantor agencies of the federal government or their designees. The ultimate obligations that may arise from cost disallowance or sanctions as a result of those audits and the related impact on the financial statements of the State or its component units is unknown. The ultimate resolution of the regulatory review process could materially impact the State's future change in financial position or cash flows in a particular period.

### **Arbitrage Rebates**

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates which are applicable to portions of the primary government and most of the discretely presented component units. Arbitrage rebate liabilities have been recorded in the financial statements under accrued and other liabilities, and the respective agencies have reserved estimated amounts for their future payment.

## Construction and Other Commitments

(Expressed in Thousands)

|  | <u>Amount<br/>Committed</u> | <u>Commitment</u>  |
|--|-----------------------------|--|
| Governmental Funds:  |                             |  |
| Transportation   | \$655,316                   | Construction   |
| School Building Authority                                    | 152,508                     | Acquisition, construction and<br>maintenance grants to county<br>school boards |
| West Virginia Infrastructure and<br>Jobs Development Council | 47,226                      | Funding of water and economic<br>development projects                          |
| Enterprise Funds:  |                             |  |
| West Virginia Lottery  | 12,622                      | Capital assets   |
| Water Pollution Control Revolving Fund                       | 30,204                      | Committed for loans  |
| Drinking Water Treatment Fund                                | 14,609                      | Lending consistent with Safe<br>Drinking Water Act                             |
| Discretely Presented Component Units:                        |                             |  |
| Economic Development Authority                               | 60,636                      | Committed for loans  |
| Parkway, Economic Development,<br>and Tourism Authority      | 11,151                      | Turnpike improvements  |
| Higher Education   | 91,791                      | Construction   |
| Educational Broadcasting Authority                           | 1,346                       | Programming packages   |

The Department of Transportation's Inspection Program (the Department) has reviewed information on obsolete and deficient bridges. The Department is concerned about safety and tries to prioritize bridges for repair and replacement based on engineering assessments. The Department's long range plans to address this issue will be impacted by actions that may be taken by both the federal and state government, including funding levels provided for this purpose, which cannot be estimated at this time.

West Virginia University has signed an agreement providing for the purchase of steam for a remaining period of 23 years. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. The total payments for steam purchased under the agreement were approximately \$8.5 million in 2007. Payments in future years will be dependent on actual operating costs and other cost indices in those years.

The West Virginia Providing Real Opportunities for Maximizing In-State Student Excellence (PROMISE) scholarship program provides scholarships to students within the West Virginia secondary education system who meet the scholarship requirements. The basic scholarship requirements include maintaining a 3.0 grade average, receiving an ACT score of 22, and enrolling in a college or university in West Virginia. The program will pay for tuition and fees, and had \$945 thousand at June 30, 2007, to fund the program obligations. Subsequent to year-end, the program received \$27 million from the Lottery and \$13.8 million in general revenue.

## **NOTE 16**

### **SUBSEQUENT EVENTS**

In July 2007, three of the Board of Treasury Investments' (BTI) pools were renamed to better reflect their purpose and activity. The Cash Liquidity Pool was renamed the West Virginia Money Market Pool, the Government Money Market Pool was renamed the West Virginia Government Money Market Pool, and the Enhanced Yield Pool was renamed the West Virginia Short Term Bond Pool. Also in July 2007, the Board authorized the establishment of the West Virginia Bank Pool to manage non-negotiable certificates of deposit (CD) purchased under the BTI's BidWV CD Program. The program purchases CDs from state banks and depositories to make funds available for consumer and business loans within the state. On August 8, 2007, \$75 million in BidWV CD Program funds were moved from the West Virginia Money Market Pool, previously known as the Cash Liquidity Pool, to the new Bank Pool. At June 30, 2007, the BidWV CD Program had CDs valued at \$50 million in the Cash Liquidity Pool, which represented 2.41% of the Pool's assets. In August 2007, two of the BTI's pools, the West Virginia Money Market and West Virginia Government Money Market Pools, previously known as the Cash Liquidity and Government Money Market Pools, were rated AAAm by Standard & Poor's. A fund rated 'AAAm' has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks. 'AAAm' is the highest principal stability fund rating assigned by Standard & Poor's.

On August 21, 2007, the West Virginia Parkways, Economic Development and Tourism Authority sold its economic development project investment in the Parkways Enterprise Limited Partnership (PELP) to the general partner, a not-for-profit organization for \$2,300,000, resulting in a \$300,000 gain on the sale, which was recognized as of the sale date.

The Division of Highways is expected to issue revenue notes in the amount of \$91 million before the end of FY 2008. The debt service payments will be funded through federal aid revenue and are the third issue of the Surface Transportation Improvements Special Obligation Notes.

Several bond insurance companies that provide guarantees on certain bonds of the State have recently been downgraded by Fitch and Moody's ratings agencies, due to the subprime crisis. The Ambac downgrade caused two of the State's bond issues to be downgraded also, from AAA to AA and a material event filing was made. The downgrade of Financial Guaranty Insurance Company (FGIC) did not change the underlying ratings of the State's FGIC insured bonds. The State is unable to determine the total impact this will have on its operations. To date, the State has experienced an increase in interest rates on certain debt issues whose rates are subject to modification as a result of the bond insurers ratings decline. As discussed in more detail below, the State has two bond issues involving auction

rate and variable rate demand bonds, which contain periodic remarketing features, that have been significantly impacted by the current conditions in the credit markets.

On February 14, 2008, the insurer of the West Virginia Parkways, Economic Development and Tourism Authority's Series 2003 Variable Rate Demand Revenue Refunding Bonds, Financial Insurance Guaranty Insurance Company, had its credit rating downgraded to a level that is below the level specified in the Liquidity Facility for the Series 2003 Bonds. If the bond insurer's credit rating remains at this level for a period of thirty consecutive days, the Liquidity Provider for the Series 2003 Bonds would have the right to elect to terminate the Liquidity Facility by giving written notice to the Trustee, the Authority, the Remarketing Agent and the Insurer not less than 30 days from the date of receipt of such notice by the Trustee. While the Authority does not expect the Liquidity Provider to exercise this option, a majority of bondholders have exercised their option to tender for purchase their interest in the Series 2003 Bonds since February 14, 2008. Additional bondholders may do so as well. Upon receipt of an irrevocable written notice, the Tender Agent must purchase the principal amount of such identified bonds no later than seven days after the receipt of the notice. In the event any bonds having been so tendered are not then remarketed by the Remarketing Agent, the Liquidity Provider must purchase the tendered bonds under the Liquidity Facility. Upon such purchase by the Liquidity Provider, such Series 2003 Bonds become "Purchased Bonds" with the Liquidity Provider as the holder thereof. In the event that the Liquidity Provider elected to give notice of termination as a result of the bond insurer's credit rating remaining below the specified level for 30 or more days, as noted above, then the effect on the Authority would be as follows: (a) the Trustee would be required to give notice of a mandatory tender of those Series 2003 Bonds that are not already "Purchased Bonds" on a date prior to the expiration of the Liquidity Facility, (b) the Liquidity Provider would be required to purchase such tendered Bonds, (c) all Series 2003 Bonds then would become "Purchased Bonds," (d) the interest rate on all "Purchased Bonds" becomes the Wall Street Journal prime rate for 90 days from the date of their compulsory purchase by the Liquidity Provider, then after 90 days have elapsed the interest rate becomes the Wall Street Journal prime rate plus 100 basis points, and ultimately, after 180 days, the interest rate becomes the Wall Street Journal prime rate plus 200 basis points. In addition, after 180 days from the date they were purchased by the Liquidity Provider, the principal amount of "Purchased Bonds" must be redeemed in ten equal semi-annual installments commencing approximately six months after the 180<sup>th</sup> day together with all unpaid interest at the Wall Street Journal prime rate plus 200 basis points, with the final installment of principal due no later than the fifth anniversary of the beginning of such special redemption period. As a result of the credit rating downgrade of the bond insurer, the Weekly Interest Rate on the Series 2003 Bonds has increased above historical levels and the Authority's interest rate swap is not sufficient to fully hedge the interest rate risk of the variable rate bonds and accordingly, as long as such condition persists, the intention of the swap to synthetically fix the interest rate will not be maintained. Because the variable interest rates related to the swap have declined further, the swap had a negative fair value of \$6,407,369 as of February 29, 2008. Further downgrades of the credit ratings

of the bond insurer to a rating below investment grade, or the withdrawal of a rating, may trigger an automatic termination of the responsibilities of the Liquidity Provider. A sustained period of interest rates at these levels could jeopardize the ability of the Authority to maintain its revenue bond coverage requirements. Under the trust requirements, such failure would not constitute an Event of Default if the Authority should cause the traffic engineers to make a study for the purpose of recommending a schedule of tolls which will cause sufficient net revenues to be collected in the immediately following fiscal year to comply with the revenue bond coverage requirements. Management is evaluating its options in response to and in the wake of the downgrade of the credit rating for the bond insurer. These options include but are not limited to, a current refunding of the 2003 bonds through the issuance of variable rate refunding bonds which would not be insured by or include the current bond insurer, or by amending the current bond terms and related agreements to remove the current bond insurer and its related credit rating requirements.

West Virginia University (WVU) has \$15.4 million 2004 A Auction Rate Certificate (ARC) bonds outstanding that were AAA rated through an insurance contract with Financial Guaranty Insurance Company (FGIC). On February 14, 2008, FGIC was downgraded by Moodys to A3. At that time, WVU Series 2004 A bonds assumed WVU's underlying credit rating of A1/A+, as it is greater than that of the bond insurer. The bonds are reset every 28 days. Currently, the interest rates on these bonds are 7% for \$6.15 million and 12% for the remaining \$9.25 million of bonds outstanding. In the event of a failed auction, the maximum interest rate is 18%. Management is considering alternatives to managing the additional interest rate exposure, including refunding or converting this debt to fixed rate debt.

Effective August 31, 2007, the Leaders SMART529 and Cornerstone SMART529 college savings plans were closed to new investors. The two plans are to be merged into the Director SMART529 plan in March 2008.

During the 2007 Regular Legislative Session, the West Virginia Legislature passed a bill (H.B. 2717) which created the Emergency Medical Services Retirement System Act. In order for the Emergency Medical Services Retirement System (EMSRS) to become effective, the following must occur:

1. At least 70% of all eligible Emergency Medical Services Officers must elect to participate in the Emergency Medical Services Retirement Plan, and
2. At least 85% of all the eligible Emergency Medical Service Officers who are currently active members of the Public Employees Retirement System (PERS) must elect to participate in the Emergency Medical Services Retirement Plan.

The election window for current PERS participating employers to opt into the plan was June 7, 2007, to December 31, 2007. The participation levels reached the required percentages outlined, and EMSRS went into effect on January 1, 2008.





# **Required Supplementary Information (RSI)**

**Budgetary Comparison  
Schedule**

**Notes to RSI**

**Budget-to-GAAP  
Reconciliation**

**Pension Information**



**Required Supplementary Information  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|  | General Revenue Fund       |                         |                   |   |
|--|----------------------------|-------------------------|-------------------|---|
|  | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>     | <u>Variance<br/>With Final<br/>Budget</u> |
| Revenues:  |                            |                         |                   |   |
| Taxes:   |                            |                         |                   |   |
| Personal Income  | \$1,318,250                | \$1,318,250             | \$1,360,511       | \$ 42,261                                 |
| Consumer Sales   | 1,018,000                  | 1,018,000               | 1,002,596         | (15,404)                                  |
| Severance  | 314,000                    | 314,000                 | 312,246           | (1,754)                                   |
| Corporate Income/Business Franchise                                      | 295,750                    | 300,750                 | 358,388           | 57,638                                    |
| Business and Occupation  | 175,500                    | 178,500                 | 180,748           | 2,248                                     |
| Gasoline and Motor Fuel  | —                          | —                       | —                 | —   |
| Automobile Privilege   | —                          | —                       | —                 | —   |
| Other  | 359,900                    | 363,900                 | 363,676           | (224)                                     |
| Excess Lottery Transfer  | 77,900                     | 77,900                  | 78,991            | 1,091                                     |
| Intergovernmental  | —                          | —                       | —                 | —   |
| Licenses, Permits, and Fees  | 12,000                     | 12,000                  | 10,843            | (1,157)                                   |
| Departmental Collections   | 15,800                     | 15,800                  | 14,702            | (1,098)                                   |
| Investment Earnings  | 29,000                     | 45,000                  | 52,837            | 7,837                                     |
| Other  | 13,000                     | 13,000                  | 17,183            | 4,183                                     |
| Industrial Access Road Transfer  | —                          | —                       | —                 | —   |
| Total Revenues   | <u>3,629,100</u>           | <u>3,657,100</u>        | <u>3,752,721</u>  | <u>95,621</u>                             |
| Expenditures:  |                            |                         |                   |   |
| Legislative  | 35,386                     | 35,387                  | 21,164            | 14,223                                    |
| Judicial   | 97,835                     | 97,835                  | 93,514            | 4,321                                     |
| Executive  | 36,884                     | 36,883                  | 31,651            | 5,232                                     |
| Administration   | 215,707                    | 215,792                 | 210,560           | 5,232                                     |
| Commerce   | 54,008                     | 55,577                  | 41,288            | 14,289                                    |
| Environmental Protection   | 7,435                      | 7,440                   | 7,013             | 427                                       |
| Employment Programs  | —                          | —                       | —                 | —   |
| Education  | 2,076,974                  | 2,080,653               | 2,071,346         | 9,307                                     |
| Health and Human Resources   | 796,977                    | 806,886                 | 770,958           | 35,928                                    |
| Military Affairs and Public Safety                                       | 272,973                    | 279,173                 | 258,142           | 21,031                                    |
| Revenue  | 27,316                     | 33,596                  | 25,320            | 8,276                                     |
| Transportation   | 7,600                      | 7,605                   | 4,212             | 3,393                                     |
| Senior Services  | —                          | —                       | —                 | —   |
| Regulatory Boards and Commissions  | —                          | —                       | —                 | —   |
| Total Expenditures   | <u>3,629,095</u>           | <u>3,656,827</u>        | <u>3,535,168</u>  | <u>121,659</u>                            |
| Excess (Deficiency) of Revenue Over<br>(Under) Expenditures Current Year | 5                          | 273                     | 217,553           | 217,280                                   |
| Expenditures from Prior Year Appropriations                              | <u>355,258</u>             | <u>355,258</u>          | <u>178,970</u>    | <u>176,288</u>                            |
| Total Excess (Deficiency) of Revenues<br>Over (Under) Expenditures       | (355,253)                  | (354,985)               | 38,583            | 393,568                                   |
| Budgetary Fund Balance, Beginning of Year,<br>as Adjusted                | <u>355,264</u>             | <u>355,264</u>          | <u>355,264</u>    | <u>—</u>                                  |
| Budgetary Fund Balance, End of Year                                      | <u>\$ 11</u>               | <u>\$ 279</u>           | <u>\$ 393,847</u> | <u>\$393,568</u>                          |

| Federal Revenue    |                  |                  |                                  | State Road         |                  |                   |                                  |
|--------------------|------------------|------------------|----------------------------------|--------------------|------------------|-------------------|----------------------------------|
| Original<br>Budget | Final<br>Budget  | Actual           | Variance<br>With Final<br>Budget | Original<br>Budget | Final<br>Budget  | Actual            | Variance<br>With Final<br>Budget |
| \$ —               | \$ —             | \$ —             | \$ —                             | \$ —               | \$ —             | \$ —              | \$ —                             |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | 290,000            | 315,000          | 349,172           | 34,172                           |
| —                  | —                | —                | —                                | 175,686            | 168,422          | 173,306           | 4,884                            |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| 3,429,957          | 3,433,794        | 2,596,891        | (836,903)                        | 485,177            | 521,289          | 389,643           | (131,646)                        |
| —                  | —                | —                | —                                | 88,008             | 88,008           | 87,058            | (950)                            |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | —                  | —                | —                 | —                                |
| —                  | —                | —                | —                                | 10,664             | 11,949           | 14,164            | 2,215                            |
| —                  | —                | —                | —                                | (3,000)            | (3,000)          | (3,034)           | (34)                             |
| <u>3,429,957</u>   | <u>3,433,794</u> | <u>2,596,891</u> | <u>(836,903)</u>                 | <u>1,046,535</u>   | <u>1,101,668</u> | <u>1,010,309</u>  | <u>(91,359)</u>                  |
| 1,269              | 1,269            | 1,269            | —                                | —                  | —                | —                 | —                                |
| 400                | 800              | 518              | 282                              | —                  | —                | —                 | —                                |
| 84,696             | 49,410           | 33,219           | 16,191                           | —                  | —                | —                 | —                                |
| 38,128             | 38,128           | 36,709           | 1,419                            | —                  | —                | —                 | —                                |
| 55,279             | 95,012           | 55,338           | 39,674                           | —                  | —                | —                 | —                                |
| 108,363            | 108,363          | 47,809           | 60,554                           | —                  | —                | —                 | —                                |
| 4,258              | 4,258            | 1,300            | 2,958                            | —                  | —                | —                 | —                                |
| 565,003            | 565,003          | 383,881          | 181,122                          | —                  | —                | —                 | —                                |
| 2,362,292          | 2,362,295        | 1,954,123        | 408,172                          | —                  | —                | —                 | —                                |
| 170,136            | 176,402          | 53,617           | 122,785                          | —                  | —                | —                 | —                                |
| 675                | 675              | 363              | 312                              | —                  | —                | —                 | —                                |
| 26,291             | 28,626           | 18,423           | 10,203                           | 1,052,708          | 1,122,708        | 944,831           | 177,877                          |
| 14,563             | 14,563           | 11,718           | 2,845                            | —                  | —                | —                 | —                                |
| <u>2,714</u>       | <u>2,860</u>     | <u>1,676</u>     | <u>1,184</u>                     | <u>—</u>           | <u>—</u>         | <u>—</u>          | <u>—</u>                         |
| <u>3,434,067</u>   | <u>3,447,664</u> | <u>2,599,963</u> | <u>847,701</u>                   | <u>1,052,708</u>   | <u>1,122,708</u> | <u>944,831</u>    | <u>177,877</u>                   |
| (4,110)            | (13,870)         | (3,072)          | 10,798                           | (6,173)            | (21,040)         | 65,478            | 86,518                           |
| <u>—</u>           | <u>—</u>         | <u>—</u>         | <u>—</u>                         | <u>—</u>           | <u>—</u>         | <u>—</u>          | <u>—</u>                         |
| (4,110)            | (13,870)         | (3,072)          | 10,798                           | (6,173)            | (21,040)         | 65,478            | 86,518                           |
| <u>33,701</u>      | <u>33,701</u>    | <u>33,701</u>    | <u>—</u>                         | <u>113,598</u>     | <u>98,727</u>    | <u>100,002</u>    | <u>1,275</u>                     |
| <u>\$ 29,591</u>   | <u>\$ 19,831</u> | <u>\$ 30,629</u> | <u>\$ 10,798</u>                 | <u>\$ 107,425</u>  | <u>\$ 77,687</u> | <u>\$ 165,480</u> | <u>\$ 87,793</u>                 |

(Continued)

**Required Supplementary Information  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)  
(Continued)**

|   | Special Revenue            |                         |                    |   |
|---|----------------------------|-------------------------|--------------------|---|
|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual</u>      | <u>Variance<br/>With Final<br/>Budget</u> |
| Revenues:   |                            |                         |                    |   |
| Taxes:  |                            |                         |                    |   |
| Personal Income   | \$ —                       | \$ —                    | \$ —               | \$ —                                      |
| Consumer Sales  | —                          | —                       | —                  | —   |
| Severance   | —                          | —                       | —                  | —   |
| Corporate Income/Business Franchise                                       | —                          | —                       | —                  | —   |
| Business and Occupation   | —                          | —                       | —                  | —   |
| Gasoline and Motor Carrier  | —                          | —                       | —                  | —   |
| Automobile Privilege  | —                          | —                       | —                  | —   |
| Other   | —                          | —                       | —                  | —   |
| Excess Lottery Transfer   | —                          | —                       | —                  | —   |
| Intergovernmental   | —                          | —                       | —                  | —   |
| Licenses, Permits, and Fees   | 1,806,082                  | 1,592,871               | 1,520,998          | (71,873)                                  |
| Investment Earnings   | —                          | —                       | —                  | —   |
| Other   | —                          | —                       | —                  | —   |
| Industrial Access Road Transfer   | —                          | —                       | —                  | —   |
| Total Revenues  | <u>1,806,082</u>           | <u>1,592,871</u>        | <u>1,520,998</u>   | <u>(71,873)</u>                           |
| Expenditures:   |                            |                         |                    |   |
| Legislative   | 3,893                      | 23,271                  | 1,623              | 21,648                                    |
| Judicial  | —                          | —                       | —                  | —   |
| Executive   | 22,182                     | 24,490                  | 16,749             | 7,741                                     |
| Administration  | 59,865                     | 77,957                  | 61,901             | 16,056                                    |
| Commerce  | 104,125                    | 87,786                  | 74,648             | 13,138                                    |
| Environmental Protection  | 55,611                     | 56,563                  | 30,566             | 25,997                                    |
| Employment Programs   | —                          | —                       | —                  | —   |
| Education   | 216,178                    | 216,179                 | 197,660            | 18,519                                    |
| Health and Human Resources  | 364,967                    | 372,555                 | 294,904            | 77,651                                    |
| Military Affairs and Public Safety  | 24,004                     | 28,528                  | 19,825             | 8,703                                     |
| Revenue   | 980,368                    | 980,349                 | 550,216            | 430,133                                   |
| Transportation  | 7,243                      | 7,243                   | 3,313              | 3,930                                     |
| Senior Services   | 42,136                     | 42,136                  | 40,029             | 2,107                                     |
| Regulatory Boards and Commissions   | <u>26,349</u>              | <u>45,724</u>           | <u>42,087</u>      | <u>3,637</u>                              |
| Total Expenditures  | <u>1,906,921</u>           | <u>1,962,781</u>        | <u>1,333,521</u>   | <u>629,260</u>                            |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures Current Year | (100,839)                  | (369,910)               | 187,477            | 557,387                                   |
| Expenditures from Prior Year Appropriations                               | <u>128,395</u>             | <u>128,395</u>          | <u>52,710</u>      | <u>75,685</u>                             |
| Total Excess (Deficiency) of Revenues<br>Over (Under) Expenditures        | (229,234)                  | (498,305)               | 134,767            | 633,072                                   |
| Budgetary Fund Balance, Beginning of Year,<br>as Adjusted                 | <u>1,022,860</u>           | <u>1,022,860</u>        | <u>1,022,860</u>   | <u>—</u>                                  |
| Budgetary Fund Balance, End of Year                                       | <u>\$ 793,626</u>          | <u>\$ 524,555</u>       | <u>\$1,157,627</u> | <u>\$633,072</u>                          |

## **REQUIRED SUPPLEMENTARY INFORMATION**

### **Notes to Required Supplementary Information Budgetary Reporting**

The State's annual budget is prepared on a cash basis, modified only at year-end to allow for a 31-day period for the payment of vendor invoices for goods and services previously encumbered. Appropriations expire or lapse at the end of this period.

#### **Budgetary Process**

Appropriation requests for the upcoming fiscal year are submitted to the State Budget Office (Budget) by September 1. Budget conducts budget hearings and reviews revenue estimates for recommendation and preparation of the proposed budget. The Governor presents the proposed budget to the State Legislature in January. Included in that budget proposal is the Governor's official revenue estimate for the upcoming fiscal year. To maintain a balanced budget, the Legislature can appropriate expenditures only to the level of the Governor's official revenue estimate and prior year fund balance.

The Legislature also holds budget hearings, considers the effect of other proposed legislation, and gathers other information during its 60-day session which occurs January through March of each calendar year. During the last days of the legislative session, the Legislature passes the budget and the Governor approves, vetoes, or allows the budget to become law without signing.

In the event that there is a shortfall of General Revenue Fund collections during the year, the Governor may impose a spending reduction. In 1994, the Legislature created a Revenue Shortfall Reserve Fund (Rainy Day Fund) designed to prevent a spending reduction. By law, the first 50 percent of the General Revenue Fund surplus for a fiscal year is set aside in a reserve or Rainy Day Fund not to exceed ten percent of the total appropriations from General Revenue for that year. This fund may be used to offset a shortfall of revenues which would otherwise require the Governor to impose expenditure reductions.

In the event of higher than estimated revenue collections throughout the year, supplemental appropriation requests may be made to the Legislature. In 2007, appropriations from General Revenue were increased approximately \$27.7 million for supplemental appropriations. Appropriated Special Revenue and Federal Funds were increased by total supplemental appropriations of \$47.7 million. During the budget process, the Legislature may also decide to reappropriate certain unexpended budgetary activities for expenditure in the next year. Accounts reappropriated generally relate to special activities or projects that may require several years to complete. Reappropriated prior year general revenue appropriations of \$266.4 are reported as "Expenditures From Prior Year Appropriations."

In addition to the above, in the event of a General Revenue budget surplus from the previous fiscal year, additional appropriation requests may be made to the Legislature. Appropriations from 2006 General Revenue were increased approximately \$88.9 million for surplus appropriations. The \$88.9 million surplus appropriations are also reported as “Expenditures From Prior Year Appropriations.”

After the budget is legally enacted, certain appropriations from General Revenue may be altered or transferred within each Cabinet Secretariat. The transfers may not exceed more than five percent of the funds appropriated to any one agency or board, and are altered at the budgetary activity level. Other specific transfers are allowed in all the budgetary funds from the object classes of personal services and unclassified budget object classes to employee benefits or from personal services and employee benefits to other budget object classes, and are not limited to Secretariat authority.

The budget laws provide for the ability of the Governor to increase the appropriations of the budgetary Appropriated Special Revenue Funds and the Federal Funds when the Legislature is not in session. Detailed spending plans, identification of new revenue sources, and justifications are required for review and approval.

### **Budgetary Control**

The State Legislature annually appropriates those general government activities determined to be important to controlling the financial operations of the State. The Legislature appropriates expenditures for those defined budgetary activities, often further defined by the object classes of personal services, employee benefits, equipment repairs and alterations, or unclassified.

The State’s accounting system controls expenditures for appropriated accounts at the budgetary activity level on a predefined quarterly basis. The State Auditor exercises control over spending at the budgetary activity level on an annual appropriation basis.

Budget further monitors the rate and nature of spending for all budgetary accounts by requiring the organization responsible for the budgeted activities to submit annual spending plans reflecting further details on their expected quarterly spending patterns and the types of expenditures for the budgeted accounts. From these spending plans, Budget monitors and limits expenditures within predefined quarterly allotments. Expenditures during a quarter may not exceed the amount of the approved allotment, unless the Governor approves the expenditure of a larger amount. Any amounts remaining unexpended at the close of a quarter are available for reallocation and expenditure during any succeeding quarter of the same fiscal year.

Budget also utilizes encumbrance accounting to control purchase orders and other commitments. Under the budgetary process, unexpended appropriations and encumbrances expire at the end of the 31-day period following each fiscal year-end. All unpaid invoices and claims after that date must be submitted by the vendor to the State Court of Claims, unless the related activity has been reappropriated by the Legislature.

### **Budgetary Funds**

The State uses four budgetary fund groups to summarize accounts or activities which have been legally appropriated. The budgetary fund groups are described as follows:

General Revenue Fund – consists primarily of the major tax revenues of the State such as Consumer Sales Tax, Personal Income Tax, Business and Occupation Tax, Corporate Net Income Tax, and Severance Tax. The General Revenue Fund supports the operation of certain primary government activities and certain other agencies.

Federal Fund – consists of any financial awards made to any State agency by the U.S. Government, whether a loan, grant, subsidy, augmentation, reimbursement or any other form of such awards, including state funds used for federal matching purposes.

Road Fund – consists of revenues from gasoline and other motor fuel excise and license taxes, motor vehicle registration and license fees, and all other revenue derived from motor vehicles or motor fuel. The Road Fund is appropriated by the Legislature and used solely for construction, repair, and maintenance of public highways, and also for the payment of interest and principal on all road bonds.

Appropriated Special Revenue Fund – consists of individual accounts created for special purposes. These accounts generate revenue derived from established rates or fees. The spending within these accounts is limited to the amount collected or the amount appropriated by the Legislature, whichever is less.

The State has other special revenue accounts which are not appropriated. These accounts are special accounts which derive revenues from special fees or charges, or exist for internal agency purposes such as payroll clearing accounts, cost allocations, etc., but are not subject to specific legislative appropriation. Accordingly, these accounts have not been reported in the State's budgetary comparison schedule.

## **2007 Budgetary Reporting**

The State's budgetary General Revenue Fund surplus for the year ended June 30, 2007, is calculated as follows (expressed in thousands):

|  |                  |
|--|------------------|
| Preliminary General Revenue Fund current year excess of revenues over expenditures as reflected on Budgetary Comparison Schedule | \$217,553        |
| Less accounts reappropriated for spending in FY 2008   | <u>(110,827)</u> |
| Accumulated surplus  | 106,726          |
| Less amount to be transferred to Revenue Shortfall Reserve Fund  | <u>(53,363)</u>  |
| General Revenue Fund FY 2007 surplus available for appropriation in FY 2008  | <u>\$ 53,363</u> |

In August 2007 after the close of the fiscal year, \$53,363,000 from the State's General Revenue Fund surplus for the year was transferred to the Reserve Fund, which represents the statutory requirement to transfer 50% of the budgetary surplus at the end of the fiscal year.

The State's budgetary General Revenue Fund balance at July 1, 2006, have been adjusted as follows (expressed in thousands):

**General Revenue Fund:**

|                                 |                  |
|---------------------------------|------------------|
| Beginning Fund Balance          | \$443,987        |
| Prior Year Refunds              | 94               |
| Less Transfer to Rainy Day Fund | <u>(88,817)</u>  |
| Adjusted Beginning Fund Balance | <u>\$355,264</u> |

## **Budgetary Reporting and GAAP**

Because the budgetary basis differs from accounting principles generally accepted in the United States, budget and actual amounts in the accompanying Budgetary Comparison Schedule are presented on the budgetary basis. A more detailed budgetary basis report, Supplementary Information to the State of West Virginia Comprehensive Annual Financial Report, is produced for internal purposes to demonstrate budgetary compliance and is available at the Financial Accounting and Reporting Section for public inspection. A reconciliation that compares the excess of revenues over expenditures on a budgetary basis for the year ended June 30, 2007, to the excess of revenues and other financing sources over expenditures and other financing uses presented in conformity with accounting principles generally accepted in the United States is set forth in the following schedule.



**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Budget-to-GAAP Reconciliation**  
**For the Fiscal Year Ended June 30, 2007**  
**(Expressed in Thousands)**

|  | <b>General<br/>Revenue<br/>Fund</b> | <b>Federal<br/>Fund</b> | <b>Road<br/>Fund</b>      | <b>Appropriated<br/>Special<br/>Revenue<br/>Fund</b> |
|--|-------------------------------------|-------------------------|---------------------------|--|
| <b>SOURCES/INFLOWS OF RESOURCES</b>  |                                     |                         |                           |  |
| Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule  | \$ 3,752,721                        | \$ 2,596,891            | \$1,010,309               | \$ 1,520,998   |
| <b>Differences - Budget to GAAP:</b>   |                                     |                         |                           |  |
| Intrafund transactions not included in GAAP revenues   | (3,114,598)                         | —                       | —                         | —  |
| Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes  | (480,543)                           | —                       | (3,541)                   | —  |
| Other Basis of Accounting Difference   | 296,812                             | —                       | (79,088)                  | —  |
| <b>Reclassifications:</b>  |                                     |                         |                           |  |
| Prior year General Revenue Refunds   | 94                                  | —                       | —                         | —  |
| Nonappropriated Budgetary Fund's revenue included as revenue/transfers in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds          | 3,480,202                           | —                       | 137,437                   | —  |
| Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds   | 631,183                             | —                       | 6,576                     | (1,520,998)  |
| Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds   | <u>2,504,664</u>                    | <u>(2,596,891)</u>      | <u>18,413</u>             | <u>—</u>   |
| <b>Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds</b>                                      | <u><u>\$ 7,070,535</u></u>          | <u><u>\$ —</u></u>      | <u><u>\$1,090,106</u></u> | <u><u>\$ —</u></u>                                   |
| <b>USES/OUTFLOWS OF RESOURCES</b>  |                                     |                         |                           |  |
| Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule  | \$ 3,714,138                        | \$ 2,599,963            | \$ 944,831                | \$ 1,386,231   |
| <b>Differences - Budget to GAAP:</b>   |                                     |                         |                           |  |
| Intrafund transactions not included in GAAP expenditures   | (3,114,598)                         | —                       | —                         | —  |
| Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes   | (151,208)                           | —                       | (5,726)                   | —  |
| Other Basis of Accounting Difference   | 1,138,415                           | —                       | 3,530                     | —  |
| <b>Reclassifications:</b>  |                                     |                         |                           |  |
| Nonappropriated Budgetary Fund's expenditures/transfers out included as expense in the GAAP General, Transportation, West Virginia Infrastructure, and Other Funds | 3,368,121                           | —                       | 42,392                    | —  |
| Budgetary general revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds   | (241,154)                           | —                       | 3,602                     | —  |
| Budgetary special revenue funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds   | 542,738                             | —                       | 3,313                     | (1,386,231)  |
| Budgetary federal funds transferred to GAAP General, Transportation, West Virginia Infrastructure, and Other Funds   | <u>2,510,857</u>                    | <u>(2,599,963)</u>      | <u>18,423</u>             | <u>—</u>   |
| <b>Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances-governmental funds</b>                                  | <u><u>\$7,767,309</u></u>           | <u><u>\$ —</u></u>      | <u><u>\$1,010,365</u></u> | <u><u>\$ —</u></u>                                   |

**Required Supplementary Information**  
**Schedule of Funding Progress**  
(Expressed in Thousands)

**Pension Plans**

|               | <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Plan Assets</b> | <b>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)</b> | <b>(Excess of<br/>Assets Over)<br/>Unfunded AAL<br/>(UAAL)</b> | <b>Funded<br/>Ratio</b> | <b>Annual<br/>Covered<br/>Payroll</b> | <b>UAAL (Excess)<br/>as a<br/>Percentage<br/>of Covered<br/>Payroll</b> |
|---------------|---|---|--|--|-------------------------|---------------------------------------|---|
| <u>TRS</u>    |   |   |  |  |                         |                                       |   |
|               | 2006                                    | \$2,174,464                                   | \$6,877,872  | \$4,703,408  | 31.6%                   | \$ 759,206                            | 619.5%  |
|               | 2005                                    | \$1,627,355                                   | \$6,617,708  | \$4,990,353  | 24.6%                   | \$ 735,614                            | 678.4%  |
|               | 2004                                    | \$1,427,475                                   | \$6,440,738  | \$5,013,263  | 22.2%                   | \$ 784,415                            | 639.1%  |
| <u>PSDDRF</u> |   |   |  |  |                         |                                       |   |
|               | 2006                                    | \$ 452,794                                    | \$ 506,828   | \$ 54,034  | 89.3%                   | \$ 11,128                             | 485.6%  |
|               | 2005                                    | \$ 361,390                                    | \$ 485,429   | \$ 124,039   | 74.4%                   | \$ 11,252                             | 1,102.4%  |
|               | 2004                                    | \$ 118,080                                    | \$ 462,119   | \$ 344,039   | 25.6%                   | \$ 12,273                             | 2,803.2%  |
| <u>SPRS</u>   |   |   |  |  |                         |                                       |   |
|               | 2006                                    | \$ 30,747                                     | \$ 33,552  | \$ 2,805   | 91.6%                   | \$ 15,870                             | 17.7%   |
|               | 2005                                    | \$ 25,297                                     | \$ 26,050  | \$ 753   | 97.1%                   | \$ 14,311                             | 5.3%  |
|               | 2004                                    | \$ 19,882                                     | \$ 22,102  | \$ 2,220   | 90.0%                   | \$ 13,233                             | 16.8%   |
| <u>JRS</u>    |   |   |  |  |                         |                                       |   |
|               | 2006                                    | \$ 85,932                                     | \$ 91,820  | \$ 5,888   | 93.6%                   | \$ 8,029                              | 73.3%   |
|               | 2005                                    | \$ 74,757                                     | \$ 90,528  | \$ 15,771  | 82.6%                   | \$ 8,145                              | 193.6%  |
|               | 2004                                    | \$ 63,559                                     | \$ 85,778  | \$ 22,219  | 74.1%                   | \$ 6,325                              | 351.3%  |

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Notes to Required Supplementary Information**  
**Pension Schedule of Funding Progress**

The information presented in the required supplementary schedules was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

|        | Valuation Date | Actuarial Cost Method | Asset Valuation Method | Amortization Method            | Amortization Period | Actuarial Assumptions     |                            |             |  |
|--------|----------------|-----------------------|------------------------|--------------------------------|---------------------|---------------------------|----------------------------|-------------|--|
|        |                |                       |                        |                                |                     | Investment Rate of Return | Projected Salary Increases |             | Annual Annuity Adjustment              |
|        |                |                       |                        |                                |                     |                           | Inflation                  | Merit       |  |
| PERS   | July 1, 2006   | Entry age cost        | Fair value             | Constant dollar                | Through FY 2035*    | 7.50%                     | 3.00%                      | 1.00%-3.00% | None                                   |
| TRS    | July 1, 2006   | Entry age cost        | Fair value             | Constant percentage of payroll | Through FY 2034     | 7.50%                     | 3.00%                      | 5%-2.5%     | None                                   |
| PSDDRF | July 1, 2006   | Entry age cost        | Fair value             | Constant percentage of payroll | Through FY 2025     | 7.50%                     | 3.00%                      | 1.75%-3.00% | 3.75% Annual cost of living adjustment |
| SPRS   | July 1, 2006   | Entry age cost        | Fair value             | Constant dollar                | Through FY 2030     | 7.50%                     | 3.00%                      | 1.75%-3.00% | 1% Annual cost of living adjustment    |
| DSRS   | July 1, 2006   | Entry age cost        | Fair value             | Constant percentage of payroll | Through FY 2029*    | 7.50%                     | 3.00%                      | 1.50%-2.50% | None                                   |
| JRS    | July 1, 2006   | Entry age cost        | Fair value             | Constant dollar                | Through FY 2018     | 7.50%                     | 3.00%                      | 1.50%       | 4.50%                                  |

\*Contribution rates are not sufficient to meet original amortization funding target.

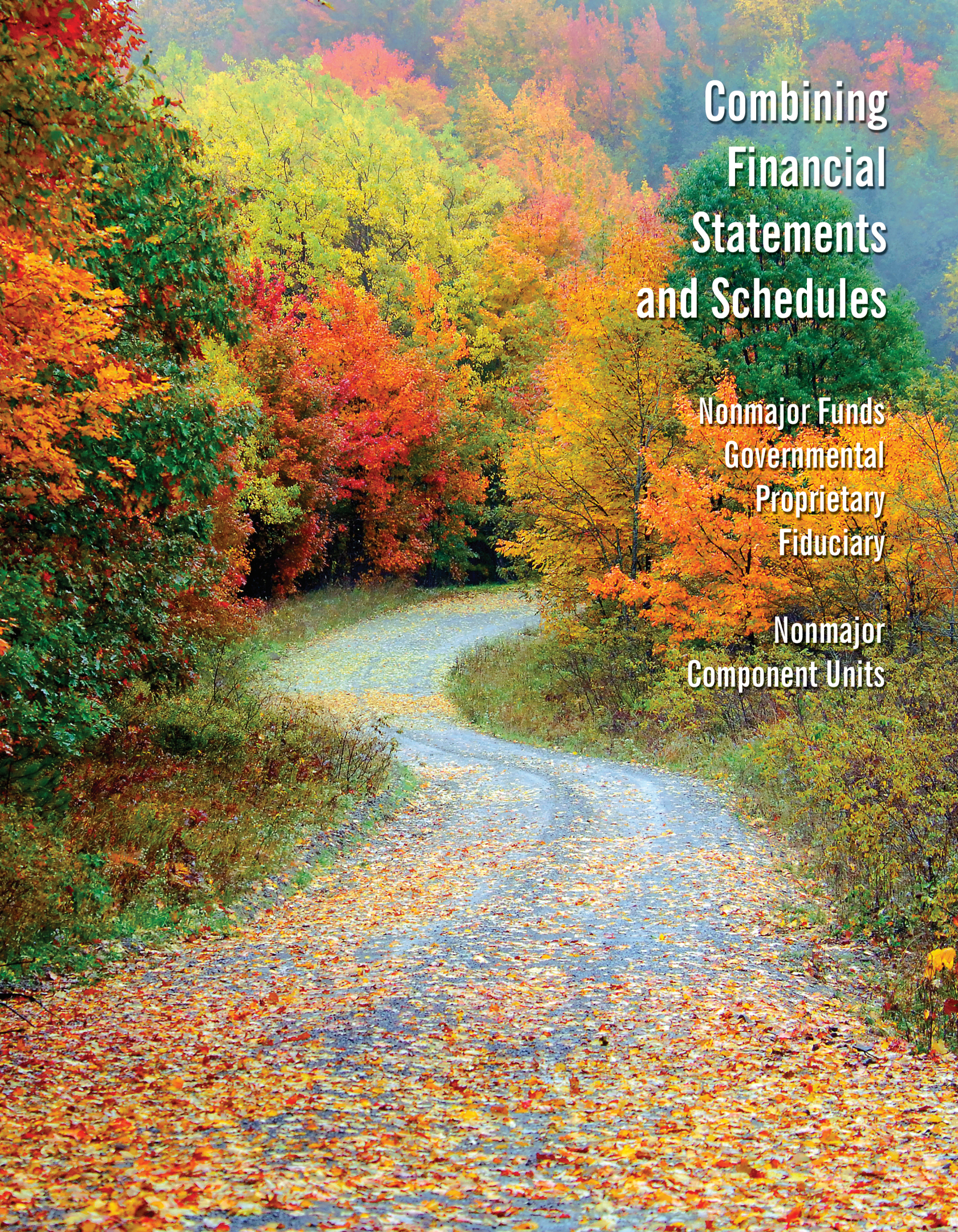
**Current Year Actuarial Changes**

There were no significant changes in assumptions included in the July 1, 2006, actuarial valuations.

Note 12 has additional pension information. CPRB prepares separately issued financial statements covering the retirement systems, which can be obtained from Consolidated Public Retirement Board, Building 5, Room 1000, State Capitol Complex, Charleston, WV 25305-0720.







# Combining Financial Statements and Schedules

Nonmajor Funds  
Governmental  
Proprietary  
Fiduciary

Nonmajor  
Component Units



# *GOVERNMENTAL FUND TYPES - NONMAJOR*

## **Special Revenue:**

Special Revenue Funds are used to account for the receipt and use of specific revenues that are legally restricted to expenditures for specified purposes.

## **Debt Service:**

Debt Service Funds are used to account for the accumulation of resources and payment of general long-term debt principal and interest from governmental resources.

## **Capital Projects:**

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds. These funds consist of the following:

**School Building Authority** The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

**Education, Arts, Sciences, and Tourism Fund** The Fund was established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State. The projects from this fund are complete. The remaining cash was transferred to the debt service accounts during the fiscal year.

**Lease Purchase Account** This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

**Permanent Funds:**

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific government programs, for the benefit of the government or its citizenry.

**The Irreducible School Fund** The Fund, which was constitutionally established, is required to maintain a minimum level of investments. All earnings from these investments are transferred to the General Fund for educational expenditures.

**Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007  
(Expressed in Thousands)**

|                                     | <b><u>Special<br/>Revenue</u></b> | <b><u>Debt<br/>Service</u></b> |
|-------------------------------------|-----------------------------------|--------------------------------|
| Assets:                             |                                   |                                |
| Cash and Cash Equivalents           | \$200,010                         | \$105,292                      |
| Investments                         | 39,542                            | 24,849                         |
| Receivables, Net                    | 10,263                            | 1,168                          |
| Due from Other Governments          | 535                               | —                              |
| Due from Other Funds                | 394                               | 1,000                          |
| Other Assets                        | 37                                | —                              |
| Restricted Assets:                  |                                   |                                |
| Cash and Cash Equivalents           | <u>577</u>                        | <u>—</u>                       |
| Total Assets                        | <u>\$251,358</u>                  | <u>\$132,309</u>               |
| Liabilities:                        |                                   |                                |
| Accounts Payable                    | \$ 5,961                          | \$ —                           |
| Accrued and Other Liabilities       | 34,908                            | —                              |
| Due to Other Governments            | 20,326                            | —                              |
| Due to Other Funds                  | 1,236                             | —                              |
| Due to Component Units              | <u>40</u>                         | <u>—</u>                       |
| Total Liabilities                   | <u>62,471</u>                     | <u>—</u>                       |
| Fund Balances:                      |                                   |                                |
| Reserved for:                       |                                   |                                |
| Capital Projects                    | —                                 | —                              |
| Debt Service                        | —                                 | 132,309                        |
| Program Administration              | 13,842                            | —                              |
| Permanent Funds                     | —                                 | —                              |
| Unreserved                          | <u>175,045</u>                    | <u>—</u>                       |
| Total Fund Balances                 | <u>188,887</u>                    | <u>132,309</u>                 |
| Total Liabilities and Fund Balances | <u>\$251,358</u>                  | <u>\$132,309</u>               |



| Capital Projects |                                 |                              | Permanent<br>Funds    |                  |
|------------------|---------------------------------|------------------------------|-----------------------|------------------|
| State<br>Road    | School<br>Building<br>Authority | Lease<br>Purchase<br>Account | Irreducible<br>School | Total            |
| \$89,420         | \$ 14,031                       | \$27,059                     | \$1,755               | \$437,567        |
| —                | 154,563                         | —                            | —                     | 218,954          |
| —                | —                               | 104                          | 7                     | 11,542           |
| —                | —                               | —                            | —                     | 535              |
| —                | —                               | —                            | —                     | 1,394            |
| —                | —                               | —                            | —                     | 37               |
| —                | —                               | —                            | —                     | 577              |
| <u>\$89,420</u>  | <u>\$168,594</u>                | <u>\$27,163</u>              | <u>\$1,762</u>        | <u>\$670,606</u> |
| \$ 7,210         | \$ 12,154                       | \$ 785                       | \$ —                  | \$ 26,110        |
| —                | —                               | —                            | —                     | 34,908           |
| —                | —                               | —                            | —                     | 20,326           |
| 192              | —                               | —                            | —                     | 1,428            |
| —                | —                               | —                            | —                     | 40               |
| <u>7,402</u>     | <u>12,154</u>                   | <u>785</u>                   | <u>—</u>              | <u>82,812</u>    |
| 82,018           | 156,440                         | 26,378                       | —                     | 264,836          |
| —                | —                               | —                            | —                     | 132,309          |
| —                | —                               | —                            | —                     | 13,842           |
| —                | —                               | —                            | 1,762                 | 1,762            |
| —                | —                               | —                            | —                     | <u>175,045</u>   |
| <u>82,018</u>    | <u>156,440</u>                  | <u>26,378</u>                | <u>1,762</u>          | <u>587,794</u>   |
| <u>\$89,420</u>  | <u>\$168,594</u>                | <u>\$27,163</u>              | <u>\$1,762</u>        | <u>\$670,606</u> |

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|  | <b><u>Special<br/>Revenue</u></b> | <b><u>Debt<br/>Service</u></b> |
|--|-----------------------------------|--------------------------------|
| Revenues:  |                                   |                                |
| Taxes:   |                                   |                                |
| Other  | \$ 4,000                          | \$ —                           |
| Intergovernmental  | 108,904                           | —                              |
| Licenses, Permits, and Fees                                  | 119,898                           | —                              |
| Charges for Services   | 141                               | —                              |
| Investment Earnings  | 12,135                            | 5,238                          |
| Other  | <u>2,868</u>                      | <u>—</u>                       |
| Total Revenues   | <u>247,946</u>                    | <u>5,238</u>                   |
| Expenditures:  |                                   |                                |
| Legislative  | 2,979                             | —                              |
| Administration   | —                                 | 6                              |
| Commerce   | —                                 | 2,243                          |
| Environmental Protection                                     | 109,430                           | —                              |
| Employment Programs  | 58,488                            | —                              |
| Education  | 989                               | —                              |
| Health and Human Resources                                   | —                                 | 11                             |
| Military Affairs and Public Safety                           | 4,442                             | 1                              |
| Revenue  | 26,780                            | —                              |
| Transportation   | —                                 | —                              |
| Regulatory Boards and Commissions                            | 23,108                            | —                              |
| Capital Outlay   | —                                 | —                              |
| Debt Service:  |                                   |                                |
| Principal  | —                                 | 116,314                        |
| Interest   | <u>—</u>                          | <u>62,795</u>                  |
| Total Expenditures   | <u>226,216</u>                    | <u>181,370</u>                 |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures | <u>21,730</u>                     | <u>(176,132)</u>               |
| Other Financing Sources (Uses):                              |                                   |                                |
| Face Value of Long-Term Debt Issued                          | —                                 | 329,591                        |
| Premiums on Bonds Issued                                     | —                                 | 6,534                          |
| Payments to Refunded Bond Escrow Agent                       | —                                 | (242,616)                      |
| Transfers In   | 16,982                            | 120,402                        |
| Transfers Out  | <u>(5,278)</u>                    | <u>(37,235)</u>                |
| Total Other Financing Sources (Uses)                         | <u>11,704</u>                     | <u>176,676</u>                 |
| Net Change in Fund Balances                                  | 33,434                            | 544                            |
| Fund Balances, Beginning of Year, as Adjusted                | <u>155,453</u>                    | <u>131,765</u>                 |
| Fund Balances, End of Year                                   | <u>\$188,887</u>                  | <u>\$ 132,309</u>              |

| Capital Projects |                           |                        | Permanent Fund     |                   |
|------------------|---------------------------|------------------------|--------------------|-------------------|
| State Road       | School Building Authority | Lease Purchase Account | Irreducible School | Total             |
| \$ —             | \$ —                      | \$ —                   | \$ —               | \$ 4,000          |
| 1,207            | —                         | —                      | —                  | 110,111           |
| —                | —                         | —                      | —                  | 119,898           |
| —                | —                         | —                      | 14                 | 155               |
| 2,773            | 9,082                     | 1,228                  | 93                 | 30,549            |
| —                | —                         | —                      | 518                | 3,386             |
| <u>3,980</u>     | <u>9,082</u>              | <u>1,228</u>           | <u>625</u>         | <u>268,099</u>    |
| —                | —                         | —                      | —                  | 2,979             |
| —                | —                         | 3                      | —                  | 9                 |
| —                | —                         | —                      | —                  | 2,243             |
| —                | —                         | 4                      | —                  | 109,434           |
| —                | —                         | —                      | —                  | 58,488            |
| —                | 104,474                   | —                      | —                  | 105,463           |
| —                | —                         | —                      | —                  | 11                |
| —                | —                         | —                      | —                  | 4,443             |
| —                | —                         | —                      | —                  | 26,780            |
| 746              | —                         | —                      | —                  | 746               |
| —                | —                         | —                      | —                  | 23,108            |
| 32,852           | —                         | 12,061                 | —                  | 44,913            |
| —                | —                         | —                      | —                  | 116,314           |
| <u>1,207</u>     | <u>—</u>                  | <u>—</u>               | <u>—</u>           | <u>64,002</u>     |
| <u>34,805</u>    | <u>104,474</u>            | <u>12,068</u>          | <u>—</u>           | <u>558,933</u>    |
| (30,825)         | (95,392)                  | (10,840)               | 625                | (290,834)         |
| 109,160          | —                         | —                      | —                  | 438,751           |
| 3,683            | —                         | —                      | —                  | 10,217            |
| —                | —                         | —                      | —                  | (242,616)         |
| —                | 52,484                    | 480                    | 130                | 190,478           |
| —                | —                         | (475)                  | (879)              | (43,867)          |
| <u>112,843</u>   | <u>52,484</u>             | <u>5</u>               | <u>(749)</u>       | <u>352,963</u>    |
| 82,018           | (42,908)                  | (10,835)               | (124)              | 62,129            |
| —                | <u>199,348</u>            | <u>37,213</u>          | <u>1,886</u>       | <u>525,665</u>    |
| <u>\$ 82,018</u> | <u>\$156,440</u>          | <u>\$ 26,378</u>       | <u>\$1,762</u>     | <u>\$ 587,794</u> |

# *SPECIAL REVENUE FUNDS*

## *Nonmajor Funds*

**Environmental Protection** The Fund consists of various programs intended to maintain and improve the environmental quality of the State and its natural resources. Included in this Fund are programs addressing the following: Underground Storage Tanks, Groundwater, Solid Waste Environmental Response and Enforcement, Special Reclamation, Mines and Minerals, Dam Safety, Hazardous Waste Emergency Response, Oil and Gas Reclamation, Oil and Gas Operating Permit and Processing, as well as other miscellaneous programs.

**School Building Authority** The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

**Public Service Commission** The Commission is responsible for appraising and balancing the interests of current and future utility service customers, the State's economy, and the utilities subject to its jurisdiction. It is directed to identify, explore and consider the potential benefits and risks associated with emerging and state-of-the-art concepts in utility management, rate design, and conservation.

**Crime Victims' Compensation** The intent of the Fund is to provide partial relief to the innocent victims of crime, including claimant's attorneys and witnesses, for the failure of the State to fully provide for the safety of its citizens and the inviolability of their property. To fund this program, individuals convicted of any felony or misdemeanor, excluding non-moving traffic violations, must pay an additional amount over and above ordinary court costs.

**Insurance Commission** The Commission is responsible for promoting a competitive and solvent insurance market of domestic, foreign, and alien insurers. Additionally, the Fund is authorized to promulgate and adopt and enforce such rules and regulations relating to insurance as are deemed necessary to protect and safeguard the interests of policyholders and the public.

**Armory Board** The Board is responsible for providing the facilities for the activities of the State's National Guard.

**WORKFORCE West Virginia** The Bureau of Employment Programs doing business as WORKFORCE West Virginia includes the Employment Service Division (ES) and the administrative activities of the Unemployment Compensation Division (UC). Local offices are operated throughout the State to serve those seeking and providing employment.

**Wildlife Resources Fund** The Fund is responsible for recognizing the inestimable importance of conserving the wildlife resources of West Virginia. In addition, the fund provides the opportunity for citizens and residents of the State to invest in the future of its wildlife resources. The Fund is financed from the proceeds of the sale of lifetime hunting and fishing licenses, as well as proceeds from gifts, grants, and contributions. The interest on this fund shall be used only for the purpose of supporting wildlife conservation programs of the State.

**Children's Fund** The Fund is for the sole purpose of awarding grants, loans, and loan guaranties for child abuse and neglect prevention activities.

**Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2007  
(Expressed in Thousands)**

|                                     | <b>Environmental<br/>Protection</b> | <b>School<br/>Building<br/>Authority</b> | <b>Public<br/>Service<br/>Commission</b> | <b>Crime<br/>Victims'<br/>Compensation</b> |
|-------------------------------------|-------------------------------------|--|--|--|
| Assets:                             |                                     |  |  |  |
| Cash and Cash Equivalents           | \$129,639                           | \$200                                    | \$15,429                                 | \$7,001                                    |
| Investments                         | —                                   | —  | —  | —  |
| Receivables, Net                    | 8,987                               | 3  | 192                                      | 22   |
| Due from Other Governments          | —                                   | —  | 535                                      | —  |
| Due from Other Funds                | 20                                  | —  | —  | —  |
| Other Assets                        | 37                                  | —  | —  | —  |
| Restricted Assets:                  |                                     |  |  |  |
| Cash and Cash Equivalents           | <u>577</u>                          | <u>—</u>                                 | <u>—</u>                                 | <u>—</u>                                   |
| Total Assets                        | <u>\$139,260</u>                    | <u>\$203</u>                             | <u>\$16,156</u>                          | <u>\$7,023</u>                             |
| Liabilities:                        |                                     |  |  |  |
| Accounts Payable                    | \$ 3,973                            | \$ 16                                    | \$ 680                                   | \$ 2                                       |
| Accrued and Other Liabilities       | 33,741                              | —  | 254                                      | —  |
| Due to Other Governments            | 7,807                               | —  | 6,204                                    | —  |
| Due to Other Funds                  | 557                                 | 1  | 179                                      | —  |
| Due to Component Units              | <u>—</u>                            | <u>—</u>                                 | <u>—</u>                                 | <u>—</u>                                   |
| Total Liabilities                   | <u>46,078</u>                       | <u>17</u>                                | <u>7,317</u>                             | <u>2</u>                                   |
| Fund Balances (Deficits):           |                                     |  |  |  |
| Reserved for:                       |                                     |  |  |  |
| Program Administration              | —                                   | —  | —  | —  |
| Unreserved                          | <u>93,182</u>                       | <u>186</u>                               | <u>8,839</u>                             | <u>7,021</u>                               |
| Total Fund Balances                 | <u>93,182</u>                       | <u>186</u>                               | <u>8,839</u>                             | <u>7,021</u>                               |
| Total Liabilities and Fund Balances | <u>\$139,260</u>                    | <u>\$203</u>                             | <u>\$16,156</u>                          | <u>\$7,023</u>                             |

| <u>Insurance<br/>Commission</u> | <u>Armory<br/>Board</u> | <u>WORKFORCE<br/>West Virginia</u> | <u>Wildlife<br/>Resources<br/>Fund</u> | <u>Children's<br/>Fund</u> | <u>Total</u>     |
|---------------------------------|-------------------------|------------------------------------|--|----------------------------|------------------|
| \$40,877                        | \$2,741                 | \$ 3,063                           | \$ 4                                   | \$1,056                    | \$200,010        |
| —                               | —                       | —                                  | 39,542                                 | —                          | 39,542           |
| 501                             | 90                      | 464                                | —                                      | 4                          | 10,263           |
| —                               | —                       | —                                  | —                                      | —                          | 535              |
| 177                             | 100                     | 97                                 | —                                      | —                          | 394              |
| —                               | —                       | —                                  | —                                      | —                          | 37               |
| —                               | —                       | —                                  | —                                      | —                          | 577              |
| <u>\$41,555</u>                 | <u>\$2,931</u>          | <u>\$ 3,624</u>                    | <u>\$39,546</u>                        | <u>\$1,060</u>             | <u>\$251,358</u> |
| \$ 544                          | \$ 108                  | \$ 638                             | \$ —                                   | \$ —                       | \$ 5,961         |
| 412                             | —                       | 501                                | —                                      | —                          | 34,908           |
| —                               | —                       | 6,315                              | —                                      | —                          | 20,326           |
| 89                              | 4                       | 406                                | —                                      | —                          | 1,236            |
| —                               | —                       | 40                                 | —                                      | —                          | 40               |
| <u>1,045</u>                    | <u>112</u>              | <u>7,900</u>                       | <u>—</u>                               | <u>—</u>                   | <u>62,471</u>    |
| —                               | —                       | 13,842                             | —                                      | —                          | 13,842           |
| <u>40,510</u>                   | <u>2,819</u>            | <u>(18,118)</u>                    | <u>39,546</u>                          | <u>1,060</u>               | <u>175,045</u>   |
| <u>40,510</u>                   | <u>2,819</u>            | <u>(4,276)</u>                     | <u>39,546</u>                          | <u>1,060</u>               | <u>188,887</u>   |
| <u>\$41,555</u>                 | <u>\$2,931</u>          | <u>\$ 3,624</u>                    | <u>\$39,546</u>                        | <u>\$1,060</u>             | <u>\$251,358</u> |

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|  | <b><u>Environmental<br/>Protection</u></b> | <b><u>School<br/>Building<br/>Authority</u></b> | <b><u>Public<br/>Service<br/>Commission</u></b> | <b><u>Crime<br/>Victims'<br/>Compensation</u></b> |
|--|--|---|---|---|
| Revenues:  |  |   |   |   |
| Taxes:   |  |   |   |   |
| Other  | \$ 4,000                                   | \$ —  | \$ —  | \$ —  |
| Intergovernmental  | 50,280                                     | —   | 1,842   | 1,486   |
| Licenses, Permits, and Fees                                  | 57,575                                     | —   | 15,029  | 1,757   |
| Charges for Services   | —  | —   | 141   | —   |
| Investment Earnings and Losses                               | 5,443                                      | —   | —   | 328   |
| Other  | <u>2,866</u>                               | <u>—</u>  | <u>—</u>  | <u>—</u>  |
| Total Revenues   | <u>120,164</u>                             | <u>—</u>  | <u>17,012</u>                                   | <u>3,571</u>                                      |
| Expenditures:  |  |   |   |   |
| Legislative  | —  | —   | —   | 2,979   |
| Environmental Protection                                     | 109,430                                    | —   | —   | —   |
| Employment Programs  | —  | —   | —   | —   |
| Education  | —  | 989   | —   | —   |
| Military Affairs and Public Safety                           | —  | —   | —   | —   |
| Revenue  | —  | —   | —   | —   |
| Regulatory Boards and Commissions                            | <u>—</u>                                   | <u>—</u>  | <u>23,108</u>                                   | <u>—</u>  |
| Total Expenditures   | <u>109,430</u>                             | <u>989</u>                                      | <u>23,108</u>                                   | <u>2,979</u>                                      |
| Excess (Deficiency) of Revenues Over<br>(Under) Expenditures | <u>10,734</u>                              | <u>(989)</u>                                    | <u>(6,096)</u>                                  | <u>592</u>  |
| Other Financing Sources (Uses):                              |  |   |   |   |
| Transfers In   | 1,076                                      | 1,100   | 4,668   | —   |
| Transfers Out  | <u>(1,006)</u>                             | <u>—</u>  | <u>(114)</u>                                    | <u>(2)</u>  |
| Total Other Financing Sources (Uses)                         | <u>70</u>                                  | <u>1,100</u>                                    | <u>4,554</u>                                    | <u>(2)</u>  |
| Net Change in Fund Balances                                  | 10,804                                     | 111   | (1,542)   | 590   |
| Fund Balances, Beginning of Year                             | <u>82,378</u>                              | <u>75</u>                                       | <u>10,381</u>                                   | <u>6,431</u>                                      |
| Fund Balances, End of Year                                   | <u>\$ 93,182</u>                           | <u>\$ 186</u>                                   | <u>\$ 8,839</u>                                 | <u>\$7,021</u>                                    |



| <u>Insurance<br/>Commission</u> | <u>Armory<br/>Board</u> | <u>WORKFORCE<br/>West Virginia</u> | <u>Wildlife<br/>Resources<br/>Fund</u> | <u>Children's<br/>Fund</u> | <u>Total</u>     |
|---------------------------------|-------------------------|------------------------------------|--|----------------------------|------------------|
| \$ —                            | \$ —                    | \$ —                               | \$ —                                   | \$ —                       | \$ 4,000         |
| —                               | —                       | 55,296                             | —                                      | —                          | 108,904          |
| 45,020                          | —                       | —                                  | 517                                    | —                          | 119,898          |
| —                               | —                       | —                                  | —                                      | —                          | 141              |
| 168                             | 105                     | —                                  | 6,042                                  | 49                         | 12,135           |
| <u>—</u>                        | <u>—</u>                | <u>—</u>                           | <u>1</u>                               | <u>1</u>                   | <u>2,868</u>     |
| <u>45,188</u>                   | <u>105</u>              | <u>55,296</u>                      | <u>6,560</u>                           | <u>50</u>                  | <u>247,946</u>   |
| —                               | —                       | —                                  | —                                      | —                          | 2,979            |
| —                               | —                       | —                                  | —                                      | —                          | 109,430          |
| —                               | —                       | 58,488                             | —                                      | —                          | 58,488           |
| —                               | —                       | —                                  | —                                      | —                          | 989              |
| —                               | 4,442                   | —                                  | —                                      | —                          | 4,442            |
| 26,780                          | —                       | —                                  | —                                      | —                          | 26,780           |
| <u>—</u>                        | <u>—</u>                | <u>—</u>                           | <u>—</u>                               | <u>—</u>                   | <u>23,108</u>    |
| <u>26,780</u>                   | <u>4,442</u>            | <u>58,488</u>                      | <u>—</u>                               | <u>—</u>                   | <u>226,216</u>   |
| 18,408                          | (4,337)                 | (3,192)                            | 6,560                                  | 50                         | 21,730           |
| —                               | 4,800                   | 5,338                              | —                                      | —                          | 16,982           |
| (1,784)                         | (12)                    | —                                  | (2,310)                                | (50)                       | (5,278)          |
| (1,784)                         | 4,788                   | 5,338                              | (2,310)                                | (50)                       | 11,704           |
| 16,624                          | 451                     | 2,146                              | 4,250                                  | —                          | 33,434           |
| 23,886                          | 2,368                   | (6,422)                            | 35,296                                 | 1,060                      | 155,453          |
| <u>\$40,510</u>                 | <u>\$ 2,819</u>         | <u>\$ (4,276)</u>                  | <u>\$39,546</u>                        | <u>\$1,060</u>             | <u>\$188,887</u> |

# *DEBT SERVICE FUNDS*

## *Nonmajor Funds*

**School Building Authority** The Authority's responsibilities include providing State funds for the acquisition and construction of elementary and secondary public school facilities in order to satisfy the educational needs of the State's citizens in an efficient and economical manner. The Authority's programs are designed to provide modern, efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools, enabling the State to more efficiently utilize its educational resources.

**West Virginia Infrastructure and Jobs Development Council** The Council coordinates the review and funding of water, wastewater, and economic development projects in the State.

**Education, Arts, Sciences, and Tourism Fund** The Fund is established to provide public financial support for constructing, equipping, improving, and maintaining capital improvement projects which promote education, arts, sciences, and tourism in the State.

**Lease Purchase Account** This account is established to ensure that revenues and expenditures for the acquisition of capital assets through lease-purchase agreements are properly recorded.

**Economic Development Project Fund** The Fund is established to provide funds to finance a portion of the costs of construction, equipping, improving or maintaining economic development projects, capital improvement projects and infrastructure projects which promote economic development in the State.

**Combining Balance Sheet**  
**Nonmajor Debt Service Funds**  
**June 30, 2007**  
(Expressed in Thousands)

|                                     | <b>School<br/>Building<br/>Authority</b> | <b>West Virginia<br/>Infrastructure<br/>and Jobs<br/>Development<br/>Council</b> | <b>Education,<br/>Arts, Sciences,<br/>and Tourism<br/>Fund</b> | <b>Lease<br/>Purchase<br/>Account</b> | <b>Economic<br/>Development<br/>Project<br/>Fund</b> | <b>Total</b>     |
|-------------------------------------|--|--|--|---------------------------------------|--|------------------|
| Assets:                             |  |  |  |                                       |  |                  |
| Cash and Cash Equivalents           | \$28,138                                 | \$348  | \$26,534   | \$12,658                              | \$37,614   | \$105,292        |
| Investments                         | 24,849                                   | —  | —  | —                                     | —  | 24,849           |
| Receivables, Net                    | 525                                      | —  | 83   | 24                                    | 536  | 1,168            |
| Due from Other Funds                | —  | —  | 1,000  | —                                     | —  | 1,000            |
| Total Assets                        | <u>\$53,512</u>                          | <u>\$348</u>   | <u>\$27,617</u>  | <u>\$12,682</u>                       | <u>\$38,150</u>                                      | <u>\$132,309</u> |
| Fund Balances:                      |  |  |  |                                       |  |                  |
| Reserved for Debt Service           | <u>\$53,512</u>                          | <u>\$348</u>   | <u>\$27,617</u>  | <u>\$12,682</u>                       | <u>\$38,150</u>                                      | <u>\$132,309</u> |
| Total Liabilities and Fund Balances | <u>\$53,512</u>                          | <u>\$348</u>   | <u>\$27,617</u>  | <u>\$12,682</u>                       | <u>\$38,150</u>                                      | <u>\$132,309</u> |

**Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Debt Service Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|  | <b>School<br/>Building<br/>Authority</b> | <b>West Virginia<br/>Infrastructure<br/>and Jobs<br/>Development<br/>Council</b> | <b>Education,<br/>Arts, Sciences,<br/>and Tourism<br/>Fund</b> | <b>Lease<br/>Purchase<br/>Account</b> | <b>Economic<br/>Development<br/>Project<br/>Fund</b> | <b>Total</b>      |
|--|--|--|--|---------------------------------------|--|-------------------|
| Revenues:                                    |  |  |  |                                       |  |                   |
| Investment Earnings                          | \$ <u>2,013</u>                          | \$ <u>463</u>  | \$ <u>1,004</u>  | \$ <u>703</u>                         | \$ <u>1,055</u>                                      | \$ <u>5,238</u>   |
| Expenditures:                                |  |  |  |                                       |  |                   |
| Administration                               | —  | —  | 3  | 3                                     | —  | 6                 |
| Commerce                                     | —  | 2,243  | —  | —                                     | —  | 2,243             |
| Health and Human Resources                   | —  | —  | —  | 11                                    | —  | 11                |
| Military Affairs and Public Safety           | —  | —  | —  | 1                                     | —  | 1                 |
| Debt Service:                                |  |  |  |                                       |  |                   |
| Principal                                    | 22,760                                   | 66,835   | 7,780  | 11,664                                | 7,275  | 116,314           |
| Interest                                     | <u>18,383</u>                            | <u>14,119</u>  | <u>2,002</u>   | <u>16,662</u>                         | <u>11,629</u>  | <u>62,795</u>     |
| Total Expenditures                           | <u>41,143</u>                            | <u>83,197</u>  | <u>9,785</u>   | <u>28,341</u>                         | <u>18,904</u>  | <u>181,370</u>    |
| Deficiency of Revenues<br>Under Expenditures | <u>(39,130)</u>                          | <u>(82,734)</u>  | <u>(8,781)</u>   | <u>(27,638)</u>                       | <u>(17,849)</u>                                      | <u>(176,132)</u>  |
| Other Financing Sources (Uses):              |  |  |  |                                       |  |                   |
| Face Value of Long-Term<br>Debt Issued       | 197,276                                  | 132,315  | —  | —                                     | —  | 329,591           |
| Premiums on Bonds Issued                     | —  | 6,534  | —  | —                                     | —  | 6,534             |
| Payments to Refunded<br>Bond Escrow Agent    | (197,252)                                | (45,364)   | —  | —                                     | —  | (242,616)         |
| Transfers In                                 | 41,346                                   | 24,000   | 9,998  | 26,225                                | 18,833   | 120,402           |
| Transfers Out                                | <u>(2,367)</u>                           | <u>(34,653)</u>  | <u>—</u>   | <u>(215)</u>                          | <u>—</u>   | <u>(37,235)</u>   |
| Total Other Financing Sources                | <u>39,003</u>                            | <u>82,832</u>  | <u>9,998</u>   | <u>26,010</u>                         | <u>18,833</u>  | <u>176,676</u>    |
| Net Change in Fund Balances                  | (127)                                    | 98   | 1,217  | (1,628)                               | 984  | 544               |
| Fund Balances, Beginning of Year             | <u>53,639</u>                            | <u>250</u>   | <u>26,400</u>  | <u>14,310</u>                         | <u>37,166</u>  | <u>131,765</u>    |
| Fund Balances, End of Year                   | <u>\$ 53,512</u>                         | <u>\$ 348</u>  | <u>\$27,617</u>  | <u>\$ 12,682</u>                      | <u>\$ 38,150</u>                                     | <u>\$ 132,309</u> |

# *INTERNAL SERVICE FUNDS FINANCIAL STATEMENTS*

Internal Service Funds account for the operations of those State agencies that provide goods and services to other State agencies and governmental units on a cost-reimbursement basis. The Internal Service Funds consist of the following:

**State Building Fund** The Fund operates and maintains the primary State government office building complex and related facilities. These facilities are leased to the State agencies that occupy the facilities.

**Information Services and Communications** The Fund is responsible for establishing, developing, and improving data-processing functions, for promulgating standards for the utilization of data-processing equipment, and for promoting the effective and efficient operation of the legislative, executive, and judicial branches of State Government. Costs are recovered through service charges to user agencies.

**Travel Management** The Fund, a central motor pool responsible for the storage, maintenance, and repairs of State-owned vehicles and aircraft, is maintained by the Purchasing Division of the Department of Administration. User agencies are billed for leasing such vehicles and for use of aircraft.

**Investment Management Board** The Board serves as the Trustee to provide prudent fiscal administration, investment, and management of the State's pension funds, workers' compensation, pneumoconiosis, and other long-term funds.

**Board of Treasury Investments** The BTI serves as investment vehicle for the operating cash of State agencies and authorities, local governments, and other political subdivisions.

**Combining Statement of Fund Net Assets**  
**Internal Service Funds**  
**June 30, 2007**  
**(Expressed in Thousands)**

|  | <b>State<br/>Building<br/>Fund</b> | <b>Information<br/>Services and<br/>Communications</b> | <b>Travel<br/>Management</b> | <b>Investment<br/>Management<br/>Board</b> | <b>Board of<br/>Treasury<br/>Investments</b> | <b>Total</b>     |
|--|------------------------------------|--|------------------------------|--|--|------------------|
| <b>Assets:</b>                                     |                                    |  |                              |  |  |                  |
| Current Assets:                                    |                                    |  |                              |  |  |                  |
| Cash and Cash Equivalents                          | \$ 1,401                           | \$ 5,433   | \$ 1,681                     | \$4,593                                    | \$507  | \$ 13,615        |
| Receivables, Net                                   | 39                                 | 221  | —                            | 3,891                                      | 355  | 4,506            |
| Due from Other Funds                               | 573                                | 5,991  | 859                          | —  | —  | 7,423            |
| Due from Component Units                           | 1                                  | 228  | 6                            | —  | —  | 235              |
| Inventories  | 163                                | 370  | —                            | —  | —  | 533              |
| Other Assets                                       | 20                                 | —  | —                            | 286  | —  | 306              |
| Restricted Assets:                                 |                                    |  |                              |  |  |                  |
| Cash and Cash Equivalents                          | —                                  | —  | 463                          | —  | —  | 463              |
| Total Current Assets                               | <u>2,197</u>                       | <u>12,243</u>  | <u>3,009</u>                 | <u>8,770</u>                               | <u>862</u>                                   | <u>27,081</u>    |
| Noncurrent Assets:                                 |                                    |  |                              |  |  |                  |
| Restricted Assets:                                 |                                    |  |                              |  |  |                  |
| Cash and Cash Equivalents                          | 42,860                             | —  | —                            | —  | —  | 42,860           |
| Capital Assets, Net                                | <u>58,996</u>                      | <u>2,994</u>   | <u>19,385</u>                | <u>11</u>                                  | <u>9</u>                                     | <u>81,395</u>    |
| Total Noncurrent Assets                            | <u>101,856</u>                     | <u>2,994</u>   | <u>19,385</u>                | <u>11</u>                                  | <u>9</u>                                     | <u>124,255</u>   |
| Total Assets                                       | <u>104,053</u>                     | <u>15,237</u>  | <u>22,394</u>                | <u>8,781</u>                               | <u>871</u>                                   | <u>151,336</u>   |
| <b>Liabilities:</b>                                |                                    |  |                              |  |  |                  |
| Current Liabilities:                               |                                    |  |                              |  |  |                  |
| Accounts Payable                                   | 2,287                              | 3,942  | 25                           | 4,730                                      | 286  | 11,270           |
| Accrued and Other Liabilities                      | 77                                 | 197  | 18                           | —  | —  | 292              |
| Due to Other Governments                           | 24                                 | 64   | 6                            | —  | —  | 94               |
| Due to Other Funds                                 | 69                                 | 126  | 27                           | —  | —  | 222              |
| Due to Component Units                             | —                                  | 17   | —                            | —  | —  | 17               |
| Capital Leases and Other Debt                      | <u>717</u>                         | <u>416</u>   | <u>2,903</u>                 | <u>—</u>                                   | <u>—</u>                                     | <u>4,036</u>     |
| Total Current Liabilities                          | <u>3,174</u>                       | <u>4,762</u>   | <u>2,979</u>                 | <u>4,730</u>                               | <u>286</u>                                   | <u>15,931</u>    |
| Noncurrent Liabilities:                            |                                    |  |                              |  |  |                  |
| Capital Leases and Other Debt                      | 1,309                              | 237  | 6,453                        | —  | —  | 7,999            |
| Compensated Absences                               | <u>775</u>                         | <u>3,124</u>   | <u>468</u>                   | <u>—</u>                                   | <u>66</u>                                    | <u>4,433</u>     |
| Total Noncurrent Liabilities                       | <u>2,084</u>                       | <u>3,361</u>   | <u>6,921</u>                 | <u>—</u>                                   | <u>66</u>                                    | <u>12,432</u>    |
| Total Liabilities                                  | <u>5,258</u>                       | <u>8,123</u>   | <u>9,900</u>                 | <u>4,730</u>                               | <u>352</u>                                   | <u>28,363</u>    |
| <b>Net Assets:</b>                                 |                                    |  |                              |  |  |                  |
| Invested in Capital Assets,<br>Net of Related Debt | 56,970                             | 2,341  | 10,029                       | 11   | 9  | 69,360           |
| Restricted for Capital Projects                    | 42,860                             | —  | —                            | —  | —  | 42,860           |
| Unrestricted (Deficit)                             | <u>(1,035)</u>                     | <u>4,773</u>   | <u>2,465</u>                 | <u>4,040</u>                               | <u>510</u>                                   | <u>10,753</u>    |
| Total Net Assets                                   | <u>\$ 98,795</u>                   | <u>\$ 7,114</u>  | <u>\$12,494</u>              | <u>\$4,051</u>                             | <u>\$519</u>                                 | <u>\$122,973</u> |

**Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|   | <u>State<br/>Building<br/>Fund</u> | <u>Information<br/>Services and<br/>Communications</u> | <u>Travel<br/>Management</u> | <u>Investment<br/>Management<br/>Board</u> | <u>Board of<br/>Treasury<br/>Investments</u> | <u>Total</u>     |
|---|------------------------------------|--|------------------------------|--|--|------------------|
| Operating Revenues:                                 |                                    |  |                              |  |  |                  |
| Charges for Services                                | \$12,170                           | \$28,186   | \$ 5,897                     | \$22,934                                   | \$2,236                                      | \$ 71,423        |
| Operating Expenses:                                 |                                    |  |                              |  |  |                  |
| Cost of Sales and Services                          | 11,857                             | 23,894   | 2,289                        | 20,540                                     | 1,416  | 59,996           |
| General and Administration                          | 801                                | 2,467  | 735                          | 2,402                                      | 674  | 7,079            |
| Depreciation and Amortization                       | <u>3,674</u>                       | <u>734</u>   | <u>3,386</u>                 | <u>14</u>                                  | <u>5</u>                                     | <u>7,813</u>     |
| Total Operating Expenses                            | <u>16,332</u>                      | <u>27,095</u>  | <u>6,410</u>                 | <u>22,956</u>                              | <u>2,095</u>                                 | <u>74,888</u>    |
| Operating Income (Loss)                             | <u>(4,162)</u>                     | <u>1,091</u>   | <u>(513)</u>                 | <u>(22)</u>                                | <u>141</u>                                   | <u>(3,465)</u>   |
| Nonoperating Revenues (Expenses):                   |                                    |  |                              |  |  |                  |
| Gain on Sale of Equipment                           | —                                  | —  | 699                          | —  | —  | 699              |
| Investment Income                                   | 625                                | —  | 51                           | 256  | —  | 932              |
| Interest Expense                                    | (118)                              | (26)   | (247)                        | —  | —  | (391)            |
| Other Nonoperating Revenues                         | —                                  | —  | 110                          | —  | —  | 110              |
| Other Nonoperating Expenses                         | <u>(300)</u>                       | <u>—</u>   | <u>—</u>                     | <u>—</u>                                   | <u>—</u>                                     | <u>(300)</u>     |
| Total Nonoperating Revenues (Expenses)              | <u>207</u>                         | <u>(26)</u>  | <u>613</u>                   | <u>256</u>                                 | <u>—</u>                                     | <u>1,050</u>     |
| Income (Loss) Before Contributions<br>and Transfers | (3,955)                            | 1,065  | 100                          | 234  | 141  | (2,415)          |
| Capital Contribution                                | —                                  | —  | 4,001                        | —  | —  | 4,001            |
| Transfers In  | 13,899                             | —  | 251                          | —  | —  | 14,150           |
| Transfers Out                                       | <u>(1,518)</u>                     | <u>—</u>   | <u>—</u>                     | <u>—</u>                                   | <u>—</u>                                     | <u>(1,518)</u>   |
| Total Contributions and Transfers                   | <u>12,381</u>                      | <u>—</u>   | <u>4,252</u>                 | <u>—</u>                                   | <u>—</u>                                     | <u>16,633</u>    |
| Change in Net Assets                                | 8,426                              | 1,065  | 4,352                        | 234  | 141  | 14,218           |
| Net Assets, Beginning of Year                       | <u>90,369</u>                      | <u>6,049</u>   | <u>8,142</u>                 | <u>3,817</u>                               | <u>378</u>                                   | <u>108,755</u>   |
| Net Assets, End of Year                             | <u>\$98,795</u>                    | <u>\$ 7,114</u>  | <u>\$12,494</u>              | <u>\$ 4,051</u>                            | <u>\$ 519</u>                                | <u>\$122,973</u> |

**Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|   | <b>State<br/>Building<br/>Fund</b> | <b>Information<br/>Services and<br/>Communications</b> | <b>Travel<br/>Management</b> | <b>Investment<br/>Management<br/>Board</b> | <b>Board of<br/>Treasury<br/>Investments</b> | <b>Total</b> |
|---|------------------------------------|--|------------------------------|--|--|--------------|
| Cash Flows from Operating Activities:                         |                                    |  |                              |  |  |              |
| Receipts from Customers                                       | \$11,887                           | \$ 27,794  | \$ 6,020                     | \$ 22,654                                  | \$ 2,093                                     | \$ 70,448    |
| Payments to Suppliers   | (8,702)                            | (13,366)   | (1,389)                      | (20,631)                                   | (1,723)                                      | (45,811)     |
| Payments to Employees   | (3,292)                            | (12,644)   | (1,359)                      | (1,719)                                    | (468)  | (19,482)     |
| Net Cash Provided by (Used for)<br>Operating Activities       | (107)                              | 1,784  | 3,272                        | 304  | (98)   | 5,155        |
| Cash Flows from Noncapital<br>Financing Activities:           |                                    |  |                              |  |  |              |
| Transfers In  | 13,899                             | —  | 251                          | —  | —  | 14,150       |
| Transfers Out   | (1,518)                            | —  | —                            | —  | —  | (1,518)      |
| Other Nonoperating Expense                                    | (300)                              | —  | —                            | —  | —  | (300)        |
| Net Cash Provided by Noncapital<br>Financing Activities       | 12,081                             | —  | 251                          | —  | —  | 12,332       |
| Cash Flows from Capital and<br>Related Financing Activities:  |                                    |  |                              |  |  |              |
| Proceeds from Sale of Capital Bonds<br>and Other Debts        | —                                  | 169  | 7,201                        | —  | —  | 7,370        |
| Repayment of Capital Debt                                     | (679)                              | (502)  | (2,768)                      | —  | —  | (3,949)      |
| Interest Paid on Capital Debt                                 | (123)                              | (26)   | (247)                        | —  | —  | (396)        |
| Acquisition and Construction of<br>Capital Assets             | (5,863)                            | (1,468)  | (7,114)                      | (5)  | (1)  | (14,451)     |
| Net Cash Used for Capital and<br>Related Financing Activities | (6,665)                            | (1,827)  | (2,928)                      | (5)  | (1)  | (11,426)     |
| Cash Flows from Investing Activities:                         |                                    |  |                              |  |  |              |
| Purchase of Investments                                       | (963)                              | —  | —                            | —  | —  | (963)        |
| Proceeds from Sale of Investments                             | 963                                | —  | —                            | —  | —  | 963          |
| Investment Earnings   | 625                                | —  | 51                           | 252  | —  | 928          |
| Net Cash Provided by Investing Activities                     | 625                                | —  | 51                           | 252  | —  | 928          |
| Net Increase (Decrease) in Cash and<br>Cash Equivalents       | 5,934                              | (43)   | 646                          | 551  | (99)   | 6,989        |
| Cash and Cash Equivalents,<br>Beginning of Year               | 38,327                             | 5,476  | 1,498                        | 4,042                                      | 606  | 49,949       |
| Cash and Cash Equivalents,<br>End of Year                     | \$44,261                           | \$ 5,433   | \$ 2,144                     | \$ 4,593                                   | \$ 507                                       | \$ 56,938    |



|   | <u>State<br/>Building<br/>Fund</u> | <u>Information<br/>Services and<br/>Communications</u> | <u>Travel<br/>Management</u> | <u>Investment<br/>Management<br/>Board</u> | <u>Board of<br/>Treasury<br/>Investments</u> | <u>Total</u>    |
|---|------------------------------------|--|------------------------------|--|--|-----------------|
| Reconciliation of Operating Income (Loss)<br>to Net Cash Provided by (Used for)<br>Operating Activities:        |                                    |  |                              |  |  |                 |
| Operating Income (Loss)   | \$(4,162)                          | \$1,091  | \$ (513)                     | \$ (22)                                    | \$ 141                                       | \$(3,465)       |
| Adjustments to Reconcile Operating<br>Income (Loss) to Net Cash Provided<br>by (Used for) Operating Activities: |                                    |  |                              |  |  |                 |
| Depreciation and Amortization   | 3,674                              | 734  | 3,386                        | 14   | 5  | 7,813           |
| Changes in Assets and Liabilities:  |                                    |  |                              |  |  |                 |
| Receivables   | (284)                              | (392)  | 123                          | (280)                                      | (144)  | (977)           |
| Inventories   | (5)                                | (181)  | —                            | —  | —  | (186)           |
| Other Assets  | 13                                 | —  | —                            | (170)                                      | —  | (157)           |
| Accounts Payable and<br>Accrued Liabilities   | 716                                | (134)  | 156                          | 762  | (98)   | 1,402           |
| Other Liabilities   | <u>(59)</u>                        | <u>666</u>   | <u>120</u>                   | <u>—</u>                                   | <u>(2)</u>                                   | <u>725</u>      |
| Net Cash Provided by (Used for)<br>Operating Activities   | <u>\$ (107)</u>                    | <u>\$1,784</u>   | <u>\$3,272</u>               | <u>\$ 304</u>                              | <u>\$ (98)</u>                               | <u>\$ 5,155</u> |
| Schedule of Non-Cash Capital and<br>Financing Activities:   |                                    |  |                              |  |  |                 |
| Contribution of Fixed Assets  | \$ —                               | \$ —   | \$4,001                      | \$ —                                       | \$ —   | \$ 4,001        |
| Incurred Capital Lease  | —                                  | 13   | —                            | —  | —  | 13              |

# *PROPRIETARY FUNDS - NONMAJOR*

**Drinking Water Treatment Revolving Fund** Low interest loans are made to communities to assist in financing drinking water infrastructure projects including, but not limited to, treatment, distribution, transmission, and storage. The Fund is to remain in perpetuity by recirculating the principal and interest earned from the loans.

**Alcohol Beverage Control Administration** The Administration is responsible for the regulation and control of the manufacture, sale, distribution, transportation, storage, and consumption of alcoholic liquors. The Administration shall establish stores and agencies and shall fix uniform prices for the sale of alcoholic liquors.

**West Virginia Prepaid College Plan** The Plan is responsible for providing individuals and organizations the opportunity to prepay future college tuition and mandatory fees at West Virginia public and private colleges and universities. Prices for contracts are based on weighted-average tuition and mandatory fees as determined annually by the Plan's consulting actuaries and its Board. In March 2003, the West Virginia Legislature closed the Prepaid Tuition Plan to new contracts until the Legislature authorizes the Plan to reopen. The Prepaid Tuition Plan will continue in existence and no contracts in effect will be affected by the closure. All contract holders will continue to pay any amounts due, including monthly installments, penalties and fees, and the Prepaid Tuition Plan will continue to pay all benefits due.

**AccessWV (previously West Virginia Health Insurance Plan)** The Plan is responsible for providing health care coverage consistent with comprehensive coverage to every eligible person who is not eligible for medicare. The Plan shall be operated so as to qualify as an acceptable alternative mechanism under the federal Health Insurance Portability and Accountability Act and as an option to provide health insurance coverage for individuals eligible for the federal health care tax credit established by the federal Trade Adjustment Assistance Reform Act of 2002 (Section 35 of the Internal Revenue Code of 1986). The coverage to be issued by the Plan, its schedule of benefits, exclusions, and other limitations shall be established by the board and subject to the approval of the insurance commissioner. The Plan will establish and modify, from time to time, as appropriate, rates, rate schedules, rate adjustments, expense allowances, agents' referral fees, claim reserve formulas, and any other actuarial function appropriate to the operation of the Plan.

**Combining Statement of Net Assets**  
**Nonmajor Proprietary Funds**  
**June 30, 2007**  
(Expressed in Thousands)

|                                   | <b>Business-type Activities Enterprise Funds</b>               |  |   |                 |                  |
|-----------------------------------|--|--|---|-----------------|------------------|
|                                   | <b>Drinking<br/>Water<br/>Treatment<br/>Revolving<br/>Fund</b> | <b>Alcohol<br/>Beverage<br/>Control<br/>Administration</b> | <b>West<br/>Virginia<br/>Prepaid<br/>College<br/>Plan</b> | <b>AccessWV</b> | <b>Total</b>     |
| Assets:                           |  |  |   |                 |                  |
| Current Assets:                   |  |  |   |                 |                  |
| Cash and Cash Equivalents         | \$13,263   | \$7,903  | \$ 3,234  | \$6,588         | \$ 30,988        |
| Receivables, Net                  | 1,953  | —  | 1,362   | 30              | 3,345            |
| Due from Other Funds              | —  | —  | 24  | —               | 24               |
| Inventories                       | —  | 29   | —   | —               | 29               |
| Other Assets                      | —  | 13   | —   | —               | 13               |
| Total Current Assets              | <u>15,216</u>  | <u>7,945</u>   | <u>4,620</u>  | <u>6,618</u>    | <u>34,399</u>    |
| Noncurrent Assets:                |  |  |   |                 |                  |
| Investments                       | —  | —  | 104,933   | —               | 104,933          |
| Receivables, Net                  | 45,744   | —  | 3,937   | —               | 49,681           |
| Capital Assets, Net               | —  | 2,030  | —   | —               | 2,030            |
| Total Noncurrent Assets           | <u>45,744</u>  | <u>2,030</u>   | <u>108,870</u>  | <u>—</u>        | <u>156,644</u>   |
| Total Assets                      | <u>60,960</u>  | <u>9,975</u>   | <u>113,490</u>  | <u>6,618</u>    | <u>191,043</u>   |
| Liabilities:                      |  |  |   |                 |                  |
| Current Liabilities:              |  |  |   |                 |                  |
| Accounts Payable                  | —  | 2,279  | 40  | —               | 2,319            |
| Accrued Tuition Contract Benefits | —  | —  | 9,372   | —               | 9,372            |
| Accrued and Other Liabilities     | —  | 4  | —   | 92              | 96               |
| Due to Other Funds                | —  | 34   | —   | —               | 34               |
| Insurance Claims Obligations      | —  | —  | —   | 280             | 280              |
| Compensated Absences              | —  | —  | 36  | —               | 36               |
| Total Current Liabilities         | <u>—</u>   | <u>2,317</u>   | <u>9,448</u>  | <u>372</u>      | <u>12,137</u>    |
| Noncurrent Liabilities:           |  |  |   |                 |                  |
| Accrued Tuition Contract Benefits | —  | —  | 106,487   | —               | 106,487          |
| Compensated Absences              | —  | 1,258  | 49  | —               | 1,307            |
| Total Noncurrent Liabilities      | <u>—</u>   | <u>1,258</u>   | <u>106,536</u>  | <u>—</u>        | <u>107,794</u>   |
| Total Liabilities                 | <u>—</u>   | <u>3,575</u>   | <u>115,984</u>  | <u>372</u>      | <u>119,931</u>   |
| Net Assets:                       |  |  |   |                 |                  |
| Invested in Capital Assets        | —  | 2,030  | —   | —               | 2,030            |
| Restricted for:                   |  |  |   |                 |                  |
| Program Administration            | —  | —  | 891   | 6,246           | 7,137            |
| Lending Activities                | 60,960   | —  | —   | —               | 60,960           |
| Unrestricted (Deficit)            | —  | 4,370  | (3,385)   | —               | 985              |
| Total Net Assets (Deficit)        | <u>\$60,960</u>  | <u>\$6,400</u>   | <u>\$ (2,494)</u>   | <u>\$6,246</u>  | <u>\$ 71,112</u> |

**Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Nonmajor Proprietary Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|   | <b>Business-type Activities Enterprise Funds</b>               |  |   |                 |                  |
|---|--|--|---|-----------------|------------------|
|   | <b>Drinking<br/>Water<br/>Treatment<br/>Revolving<br/>Fund</b> | <b>Alcohol<br/>Beverage<br/>Control<br/>Administration</b> | <b>West<br/>Virginia<br/>Prepaid<br/>College<br/>Plan</b> | <b>AccessWV</b> | <b>Total</b>     |
| Operating Revenues:                     |  |  |   |                 |                  |
| Charges for Services and Sales          | \$ 494   | \$69,729   | \$ —  | \$3,868         | \$ 74,091        |
| Tuition Contracts                       | —  | —  | 150   | —               | 150              |
| Licenses, Permits, and Fees             | —  | 3,312  | —   | —               | 3,312            |
| Other                                   | —  | 535  | 872   | 207             | 1,614            |
| Total Operating Revenues                | <u>494</u>   | <u>73,576</u>  | <u>1,022</u>  | <u>4,075</u>    | <u>79,167</u>    |
| Operating Expenses:                     |  |  |   |                 |                  |
| Cost of Sales and Services              | —  | 54,388   | —   | —               | 54,388           |
| Insurance Claims                        | —  | —  | —   | 1,469           | 1,469            |
| Tuition Contract Benefits and Expenses  | —  | —  | 13,855  | —               | 13,855           |
| General and Administration              | —  | 6,644  | 596   | 272             | 7,512            |
| Depreciation and Amortization           | —  | 143  | —   | —               | 143              |
| Total Operating Expenses                | <u>—</u>   | <u>61,175</u>  | <u>14,451</u>   | <u>1,741</u>    | <u>77,367</u>    |
| Operating Income (Loss)                 | 494  | 12,401   | (13,429)  | 2,334           | 1,800            |
| Nonoperating Revenues:                  |  |  |   |                 |                  |
| Interest and Other Investment Income    | <u>644</u>   | <u>—</u>   | <u>16,044</u>   | <u>280</u>      | <u>16,968</u>    |
| Income Before Transfers                 | 1,138  | 12,401   | 2,615   | 2,614           | 18,768           |
| Transfers:                              |  |  |   |                 |                  |
| Transfers In                            | 9,086  | 690  | 151   | 48              | 9,975            |
| Transfers Out                           | <u>—</u>   | <u>(13,216)</u>  | <u>—</u>  | <u>—</u>        | <u>(13,216)</u>  |
| Total Transfers                         | <u>9,086</u>   | <u>(12,526)</u>  | <u>151</u>  | <u>48</u>       | <u>(3,241)</u>   |
| Change in Net Assets                    | 10,224   | (125)  | 2,766   | 2,662           | 15,527           |
| Net Assets (Deficit), Beginning of Year | <u>50,736</u>  | <u>6,525</u>   | <u>(5,260)</u>  | <u>3,584</u>    | <u>55,585</u>    |
| Net Assets (Deficit), End of Year       | <u>\$60,960</u>  | <u>\$ 6,400</u>  | <u>\$ (2,494)</u>   | <u>\$6,246</u>  | <u>\$ 71,112</u> |

**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2007**  
(Expressed in Thousands)

|  | <b>Business-type Activities Enterprise Funds</b>               |  |   |                 |                  |
|--|--|--|---|-----------------|------------------|
|  | <b>Drinking<br/>Water<br/>Treatment<br/>Revolving<br/>Fund</b> | <b>Alcohol<br/>Beverage<br/>Control<br/>Administration</b> | <b>West<br/>Virginia<br/>Prepaid<br/>College<br/>Plan</b> | <b>AccessWV</b> | <b>Total</b>     |
| Cash Flows From Operating Activities:                              |  |  |   |                 |                  |
| Receipts from Customers  | \$ 2,009   | \$ 73,163  | \$ 1,563  | \$ 4,232        | \$ 80,967        |
| Payments to Suppliers  | —  | (56,396)   | (339)   | (1,759)         | (58,494)         |
| Payments to Employees  | —  | (4,651)  | (265)   | (59)            | (4,975)          |
| Payments to Beneficiaries  | —  | —  | (6,315)   | —               | (6,315)          |
| Payments for Loans Originated                                      | (11,980)   | —  | —   | —               | (11,980)         |
| Other Operating Cash Receipts                                      | —  | 400  | 810   | —               | 1,210            |
| Net Cash Provided by (Used for)<br>Operating Activities            | <u>(9,971)</u>   | <u>12,516</u>  | <u>(4,546)</u>  | <u>2,414</u>    | <u>413</u>       |
| Cash Flows from Noncapital<br>Financing Activities:                |  |  |   |                 |                  |
| Transfers In   | 9,086  | 690  | 150   | 48              | 9,974            |
| Transfers Out  | —  | (13,216)   | —   | —               | (13,216)         |
| Net Cash Provided by (Used for)<br>Noncapital Financing Activities | <u>9,086</u>   | <u>(12,526)</u>  | <u>150</u>  | <u>48</u>       | <u>(3,242)</u>   |
| Cash Flows from Capital and Related<br>Financing Activities:       |  |  |   |                 |                  |
| Acquisition and Construction of<br>Capital Assets                  | —  | (282)  | —   | —               | (282)            |
| Net Cash Used for Capital and Related<br>Financing Activities      | <u>—</u>   | <u>(282)</u>   | <u>—</u>  | <u>—</u>        | <u>(282)</u>     |
| Cash Flows from Investing Activities:                              |  |  |   |                 |                  |
| Purchase of Investments  | —  | —  | (810)   | —               | (810)            |
| Proceeds from Sale of Investments                                  | —  | —  | 4,600   | —               | 4,600            |
| Investment Earnings  | 644  | —  | 947   | 250             | 1,841            |
| Net Cash Provided by Investing Activities                          | <u>644</u>   | <u>—</u>   | <u>4,737</u>  | <u>250</u>      | <u>5,631</u>     |
| Net Increase (Decrease) in Cash and<br>Cash Equivalents            | (241)  | (292)  | 341   | 2,712           | 2,520            |
| Cash and Cash Equivalents,<br>Beginning of Year                    | <u>13,504</u>  | <u>8,195</u>   | <u>2,893</u>  | <u>3,876</u>    | <u>28,468</u>    |
| Cash and Cash Equivalents,<br>End of Year                          | <u>\$ 13,263</u>   | <u>\$ 7,903</u>  | <u>\$ 3,234</u>   | <u>\$ 6,588</u> | <u>\$ 30,988</u> |

(Continued)

**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2007**  
(Expressed in Thousands)  
(Continued)

|   | <b>Business-type Activities Enterprise Funds</b>               |  |   |                 |               |
|---|--|--|---|-----------------|---------------|
|   | <b>Drinking<br/>Water<br/>Treatment<br/>Revolving<br/>Fund</b> | <b>Alcohol<br/>Beverage<br/>Control<br/>Administration</b> | <b>West<br/>Virginia<br/>Prepaid<br/>College<br/>Plan</b> | <b>AccessWV</b> | <b>Total</b>  |
| Reconciliation of Operating Income (Loss)<br>to Net Cash Provided by (Used for)                                 |  |  |   |                 |               |
| Operating Activities:   |  |  |   |                 |               |
| Operating Income (Loss)   | \$ 494   | \$12,401   | \$(13,429)  | \$2,334         | \$ 1,800      |
| Adjustments to Reconcile Operating<br>Income (Loss) to Net Cash Provided<br>by (Used for) Operating Activities: |  |  |   |                 |               |
| Depreciation and Amortization   | —  | 143  | —   | —               | 143           |
| Changes in Assets and Liabilities:  |  |  |   |                 |               |
| Receivables   | (10,465)   | (13)   | 1,351   | 157             | (8,970)       |
| Inventories   | —  | 8  | —   | —               | 8             |
| Accounts Payable and<br>Accrued Liabilities   | —  | (23)   | (14)  | 63              | 26            |
| Tuition Contracts Benefits<br>and Expenses  | —  | —  | 7,539   | —               | 7,539         |
| Other Liabilities   | —  | —  | —   | (140)           | (140)         |
| Compensated Absences  | —  | —  | 7   | —               | 7             |
| Net Cash Provided by (Used for)   |  |  |   |                 |               |
| Operating Activities  | <u>\$ (9,971)</u>  | <u>\$12,516</u>  | <u>\$ (4,546)</u>   | <u>\$2,414</u>  | <u>\$ 413</u> |
| Schedule of Noncash Capital and<br>Financing Activities:  |  |  |   |                 |               |
| Unrealized Gain on Investments  | \$ —   | \$ —   | \$ 15,096   | \$ —            | \$15,096      |

# *PENSION TRUST FUNDS*

***Pension Trust*** These Funds are accounted for in essentially the same manner as proprietary funds and are described below:

**Consolidated Public Retirement Board** The Consolidated Public Retirement Board consists of seven plans. There are six defined benefit plans as follows: The Public Employees' Retirement System (PERS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers substantially all employees of the State and its component units, as well as employees of participating non-State governmental entities who are not participants of another State or municipal retirement system. The Deputy Sheriff Retirement System (DSRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all deputy sheriffs hired on or after July 1, 1998, as well as eligible transferees from PERS. The Teachers' Retirement System (TRS) plan is a multiple-employer defined benefit, cost-sharing public employee retirement system. This plan covers all full-time employees of the public school systems in the State, as well as certain personnel of the State-supported institutions of higher education, State Department of Education, and Boards of higher education. The Public Safety Death, Disability and Retirement Fund (PSDDRF) plan is a single-employer defined benefit public employee retirement system. This plan covers all West Virginia State Police hired before July 1, 1994. The State Police Retirement System (SPRS) was implemented to cover all State Police employees hired on or after July 1, 1994. The Judges Retirement System (JRS) plan is a single-employer defined benefit public employee retirement system. This plan covers State judges who elect to participate. The Teachers' Defined Contribution Retirement System (TDCRS) plan is a multiple-employer defined contribution retirement system. This plan primarily covers full-time employees of the State's county public school systems.

**Combining Statement of Net Assets**  
**Pension Trust Funds**  
**June 30, 2007**  
(Expressed in Thousands)

|   | <b>Public<br/>Employees'<br/>Retirement<br/>System</b> | <b>Teachers'<br/>Retirement<br/>System</b> | <b>Public<br/>Safety Death,<br/>Disability,<br/>and<br/>Retirement<br/>Fund</b> |
|---|--|--|---|
| Assets:                                       |  |  |   |
| Cash and Cash Equivalents                     | \$ 185   | \$ —                                       | \$ —  |
| Investments:                                  |  |  |   |
| Equity in Pooled Investments                  | 4,289,067  | 3,638,376                                  | 512,726   |
| Mutual Funds                                  | —  | —  | —   |
| Receivables, Net:                             |  |  |   |
| Contributions                                 | 4,096  | 19,668                                     | —   |
| Participant Loans                             | —  | 7,984                                      | 286   |
| Due from Other Funds                          | 63   | —  | —   |
| Due from Component Units                      | <u>153</u>   | <u>—</u>                                   | <u>—</u>  |
| Total Assets                                  | <u>4,293,564</u>                                       | <u>3,666,028</u>                           | <u>513,012</u>  |
| Liabilities:                                  |  |  |   |
| Accrued and Other Liabilities                 | 208  | 35   | 3   |
| Due to Other Funds                            | <u>60</u>  | <u>—</u>                                   | <u>—</u>  |
| Total Liabilities                             | <u>268</u>   | <u>35</u>                                  | <u>3</u>  |
| Net Assets Held in Trust for Pension Benefits | <u>\$4,293,296</u>                                     | <u>\$3,665,993</u>                         | <u>\$513,009</u>  |



| <b>State<br/>Police<br/>Retirement<br/>System</b> | <b>Judges'<br/>Retirement<br/>System</b> | <b>Teachers'<br/>Defined<br/>Contribution<br/>Retirement<br/>System</b> | <b>Deputy<br/>Sheriff<br/>Retirement<br/>System</b> | <b>Total<br/>Pension<br/>Trust<br/>Funds</b> |
|---|--|---|---|--|
| \$ —  | \$ —                                     | \$ 3,097  | \$ —  | \$ 3,282                                     |
| 40,353  | 104,127                                  | —   | 93,013  | 8,677,662                                    |
| —   | —  | 894,443   | —   | 894,443                                      |
| —   | —  | 10,959  | 555   | 35,278                                       |
| —   | —  | —   | 418   | 8,688  |
| —   | —  | —   | —   | 63   |
| —   | —  | —   | —   | 153  |
| <u>40,353</u>                                     | <u>104,127</u>                           | <u>908,499</u>  | <u>93,986</u>                                       | <u>9,619,569</u>                             |
| 3   | —  | 653   | 3   | 905  |
| —   | —  | —   | —   | 60   |
| <u>3</u>  | <u>—</u>                                 | <u>653</u>  | <u>3</u>  | <u>965</u>                                   |
| <u>\$40,350</u>                                   | <u>\$104,127</u>                         | <u>\$907,846</u>  | <u>\$93,983</u>                                     | <u>\$9,618,604</u>                           |

**Combining Statement of Changes in Net Assets  
Pension Trust Funds  
For the Fiscal Year Ended June 30, 2007  
(Expressed in Thousands)**

|   | <b>Public<br/>Employees'<br/>Retirement<br/>System</b> | <b>Teachers'<br/>Retirement<br/>System</b> | <b>Public<br/>Safety Death,<br/>Disability,<br/>and<br/>Retirement<br/>Fund</b> |
|---|--|--|---|
| Additions:  |  |  |   |
| Contributions:  |  |  |   |
| Members   | \$ 52,239  | \$ 49,923                                  | \$ 1,029  |
| Employers   | <u>121,183</u>   | <u>1,482,184</u>                           | <u>5,360</u>  |
| Total Contributions   | <u>173,422</u>   | <u>1,532,107</u>                           | <u>6,389</u>  |
| Investment Income (Loss):                                       |  |  |   |
| Net Appreciation (Depreciation) in<br>Fair Value of Investments | 643,551  | 364,581                                    | 77,870  |
| Interest  | 32,885   | 21,817                                     | 3,854   |
| Investment Expense  | <u>(30,938)</u>  | <u>(19,757)</u>                            | <u>(3,603)</u>  |
| Net Investment Income (Loss)                                    | <u>645,498</u>   | <u>366,641</u>                             | <u>78,121</u>   |
| Transfers to (from) Plans                                       | 443  | (449)                                      | —   |
| Other   | <u>4,600</u>   | <u>4,399</u>                               | <u>680</u>  |
| Total Additions   | <u>823,963</u>   | <u>1,902,698</u>                           | <u>85,190</u>   |
| Deductions:   |  |  |   |
| Benefit Expense   | 217,540  | 404,875                                    | 24,794  |
| Refunds of Contributions  | 9,216  | 3,326                                      | 130   |
| Administrative Expenses   | <u>4,097</u>   | <u>2,968</u>                               | <u>51</u>   |
| Total Deductions  | <u>230,853</u>   | <u>411,169</u>                             | <u>24,975</u>   |
| Change in Net Assets Held in Trust<br>for Pension Benefits      | 593,110  | 1,491,529                                  | 60,215  |
| Net Assets, Beginning of Year                                   | <u>3,700,186</u>                                       | <u>2,174,464</u>                           | <u>452,794</u>  |
| Net Assets, End of Year   | <u>\$4,293,296</u>                                     | <u>\$3,665,993</u>                         | <u>\$513,009</u>  |

| <b>State<br/>Police<br/>Retirement<br/>System</b> | <b>Judges'<br/>Retirement<br/>System</b> | <b>Teachers'<br/>Defined<br/>Contribution<br/>Retirement<br/>System</b> | <b>Deputy<br/>Sheriff<br/>Retirement<br/>System</b> | <b>Total<br/>Pension<br/>Trust<br/>Funds</b> |
|---|--|---|---|--|
| \$ 2,176  | \$ 733                                   | \$ 30,599   | \$ 2,837  | \$ 139,536                                   |
| <u>2,175</u>                                      | <u>6,034</u>                             | <u>55,072</u>   | <u>3,365</u>  | <u>1,675,373</u>                             |
| <u>4,351</u>                                      | <u>6,767</u>                             | <u>85,671</u>   | <u>6,202</u>  | <u>1,814,909</u>                             |
| 5,627   | 15,167                                   | 94,294  | 13,647  | 1,214,737                                    |
| 287   | 779                                      | —   | 717   | 60,339                                       |
| <u>(282)</u>                                      | <u>(734)</u>                             | <u>—</u>  | <u>(654)</u>  | <u>(55,968)</u>                              |
| <u>5,632</u>                                      | <u>15,212</u>                            | <u>94,294</u>   | <u>13,710</u>                                       | <u>1,219,108</u>                             |
| —   | 24                                       | —   | (18)  | —  |
| <u>—</u>  | <u>—</u>                                 | <u>—</u>  | <u>541</u>  | <u>10,220</u>                                |
| <u>9,983</u>                                      | <u>22,003</u>                            | <u>179,965</u>  | <u>20,435</u>                                       | <u>3,044,237</u>                             |
| 135   | 3,801                                    | —   | 3,891   | 655,036                                      |
| 214   | —  | 18,233  | 389   | 31,508                                       |
| <u>31</u>   | <u>7</u>                                 | <u>2,182</u>  | <u>71</u>   | <u>9,407</u>                                 |
| <u>380</u>  | <u>3,808</u>                             | <u>20,415</u>   | <u>4,351</u>  | <u>695,951</u>                               |
| 9,603   | 18,195                                   | 159,550   | 16,084  | 2,348,286                                    |
| <u>30,747</u>                                     | <u>85,932</u>                            | <u>748,296</u>  | <u>77,899</u>                                       | <u>7,270,318</u>                             |
| <u>\$40,350</u>                                   | <u>\$104,127</u>                         | <u>\$907,846</u>  | <u>\$93,983</u>                                     | <u>\$9,618,604</u>                           |

# *INVESTMENT TRUST FUNDS*

**Investment Trust Funds** The investment trust funds account for the external portion of the State's external investment pools. The State maintains two external investment pools, the Cash Liquidity and Money Market pools. The external portion belongs to local governments and municipalities. These Funds are accounted for in essentially the same manner as proprietary funds.

**Combining Statement of Fiduciary Net Assets**  
**Investment Trust Funds**  
**June 30, 2007**  
(Expressed in Thousands)

|  | <b>Cash<br/>Liquidity</b> | <b>Money<br/>Market</b> | <b>Total</b>     |
|--|---------------------------|-------------------------|------------------|
| Assets:  |                           |                         |                  |
| Equity in Pooled Cash Equivalents                          | \$74,117                  | \$171,690               | \$245,807        |
| Total Assets   | <u>\$74,117</u>           | <u>\$171,690</u>        | <u>\$245,807</u> |
| Net Assets:  |                           |                         |                  |
| Held in Trust for External<br>Investment Pool Participants | \$74,117                  | \$171,690               | \$245,807        |
| Total Net Assets   | <u>\$74,117</u>           | <u>\$171,690</u>        | <u>\$245,807</u> |

**Combining Statement of Changes in Fiduciary Net Assets**  
**Investment Trust Funds**  
**For the Fiscal Year Ended June 30, 2007**  
(Expressed in Thousands)

|   | <b>Cash<br/>Liquidity</b> | <b>Money<br/>Market</b> | <b>Total</b>     |
|---|---------------------------|-------------------------|------------------|
| Additions:  |                           |                         |                  |
| Deposits, Pool Participants   | \$189,553                 | \$427,806               | \$617,359        |
| Investment Income:  |                           |                         |                  |
| Net Appreciation in Fair Value<br>of Investments                                | <u>3,202</u>              | <u>8,976</u>            | <u>12,178</u>    |
| Total Additions   | <u>192,755</u>            | <u>436,782</u>          | <u>629,537</u>   |
| Deductions:   |                           |                         |                  |
| Withdrawals   | <u>180,464</u>            | <u>417,802</u>          | <u>598,266</u>   |
| Change in Net Assets Held in Trust for<br>External Investment Pool Participants | 12,291                    | 18,980                  | 31,271           |
| Net Assets, Beginning of Year   | <u>61,826</u>             | <u>152,710</u>          | <u>214,536</u>   |
| Net Assets, End of Year   | <u>\$ 74,117</u>          | <u>\$171,690</u>        | <u>\$245,807</u> |

# *AGENCY FUNDS*

***Agency Funds*** These Funds are custodial in nature and do not involve measurement of operations. They include the following:

**Local Government** This includes two funds, the Local Government Fund and the Municipal Bond Commission, which account for taxes collected by the State that are to be remitted to respective local governments.

**Other Agency Funds** These funds are the Consolidated Investment Pool, the Patient Injury Compensation Fund, and other small agency funds which account for various assets and liabilities generated through agency relationships. These include patient and inmate funds and other amounts collected on behalf of third parties, performance bonds required by the Department of Energy and Labor, and other restricted assets held by the Governor's Office of Community and Industrial Development and the Department of Natural Resources. The Patient Injury Compensation Fund was created for the purpose of providing fair and reasonable compensation in medical malpractice actions for any portion of economic damages awarded that is uncollectible as a result of limitations on economic damage awards for trauma care, or as a result of the operation of the joint and several liability principles and standards set forth in the West Virginia State Code.

**Combining Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2007**  
(Expressed in Thousands)

|                          | <u>Local Government</u> |                                  | <u>Other Agency</u>                 |   |                           |                 |
|--------------------------|-------------------------|----------------------------------|-------------------------------------|---|---------------------------|-----------------|
|                          | <u>Local Government</u> | <u>Municipal Bond Commission</u> | <u>Consolidated Investment Pool</u> | <u>Patient Injury Compensation Fund</u> | <u>Other Agency Funds</u> | <u>Total</u>    |
| Assets:                  |                         |                                  |                                     |   |                           |                 |
| Current Assets:          |                         |                                  |                                     |   |                           |                 |
| Cash and                 |                         |                                  |                                     |   |                           |                 |
| Cash Equivalents         | \$264                   | \$9,075                          | \$ 20,269                           | \$5,133                                 | \$25,569                  | \$60,310        |
| Receivables, Net         | <u>—</u>                | <u>—</u>                         | <u>67</u>                           | <u>16</u>                               | <u>2,519</u>              | <u>2,602</u>    |
| Total Assets             | <u>\$264</u>            | <u>\$9,075</u>                   | <u>\$20,336</u>                     | <u>\$5,149</u>                          | <u>\$28,088</u>           | <u>\$62,912</u> |
| Liabilities:             |                         |                                  |                                     |   |                           |                 |
| Current Liabilities:     |                         |                                  |                                     |   |                           |                 |
| Accounts Payable         | \$ —                    | \$ —                             | \$ —                                | \$ —                                    | \$ 1,193                  | \$ 1,193        |
| Due to Other Governments | 264                     | 9,075                            | —                                   | —                                       | —                         | 9,339           |
| Agency Liabilities       | <u>—</u>                | <u>—</u>                         | <u>20,336</u>                       | <u>5,149</u>                            | <u>26,895</u>             | <u>52,380</u>   |
| Total Liabilities        | <u>\$264</u>            | <u>\$9,075</u>                   | <u>\$20,336</u>                     | <u>\$5,149</u>                          | <u>\$28,088</u>           | <u>\$62,912</u> |

**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Fiscal Year Ended June 30, 2007**  
(Expressed in Thousands)

|   | <b>Balance<br/>July 1, 2006</b> | <b>Additions</b>   | <b>Deductions</b>  | <b>Balance<br/>June 30, 2007</b> |
|---|---------------------------------|--------------------|--------------------|----------------------------------|
| <b>Local Government</b>                 |                                 |                    |                    |                                  |
| Assets:                                 |                                 |                    |                    |                                  |
| Cash                                    | \$ 158                          | \$1,270,651        | \$1,270,545        | \$ 264                           |
| Total Assets                            | <u>\$ 158</u>                   | <u>\$1,270,651</u> | <u>\$1,270,545</u> | <u>\$ 264</u>                    |
| Liabilities:                            |                                 |                    |                    |                                  |
| Accounts Payable                        | \$ —                            | \$ 9,065           | \$ 9,065           | \$ —                             |
| Due to Other Governments                | 158                             | 1,279,716          | 1,279,610          | 264                              |
| Total Liabilities                       | <u>\$ 158</u>                   | <u>\$1,288,781</u> | <u>\$1,288,675</u> | <u>\$ 264</u>                    |
| <b>Municipal Bond Commission</b>        |                                 |                    |                    |                                  |
| Assets:                                 |                                 |                    |                    |                                  |
| Cash                                    | \$ 6,521                        | \$ 473,198         | \$ 470,644         | \$ 9,075                         |
| Total Assets                            | <u>\$ 6,521</u>                 | <u>\$ 473,198</u>  | <u>\$ 470,644</u>  | <u>\$ 9,075</u>                  |
| Liabilities:                            |                                 |                    |                    |                                  |
| Accounts Payable                        | \$ —                            | \$ 162,382         | \$ 162,382         | \$ —                             |
| Due to Other Governments                | 6,521                           | 635,580            | 633,026            | 9,075                            |
| Total Liabilities                       | <u>\$ 6,521</u>                 | <u>\$ 797,962</u>  | <u>\$ 795,408</u>  | <u>\$ 9,075</u>                  |
| <b>Consolidated Investment Pool</b>     |                                 |                    |                    |                                  |
| Assets:                                 |                                 |                    |                    |                                  |
| Cash                                    | \$ 4,928                        | \$ 10,274          | \$ 9,956           | \$ 5,246                         |
| Equity in Pooled Cash Equivalents       | 15,764                          | 3,994              | 4,735              | 15,023                           |
| Accrued Interest Receivable             | 62                              | 67                 | 62                 | 67                               |
| Total Assets                            | <u>\$20,754</u>                 | <u>\$ 14,335</u>   | <u>\$ 14,753</u>   | <u>\$20,336</u>                  |
| Liabilities:                            |                                 |                    |                    |                                  |
| Accounts Payable                        | \$ —                            | \$ 60              | \$ 60              | \$ —                             |
| Agency Liabilities                      | 20,754                          | 14,395             | 14,813             | 20,336                           |
| Total Liabilities                       | <u>\$20,754</u>                 | <u>\$ 14,455</u>   | <u>\$ 14,873</u>   | <u>\$20,336</u>                  |
| <b>Patient Injury Compensation Fund</b> |                                 |                    |                    |                                  |
| Assets:                                 |                                 |                    |                    |                                  |
| Cash and Cash Equivalents               | \$ 43                           | \$ 1,757           | \$ 177             | \$ 1,623                         |
| Equity in Pooled Cash Equivalents       | 3,333                           | 177                | —                  | 3,510                            |
| Accrued Interest Receivable             | 13                              | 16                 | 13                 | 16                               |
| Total Assets                            | <u>\$ 3,389</u>                 | <u>\$ 1,950</u>    | <u>\$ 190</u>      | <u>\$ 5,149</u>                  |
| Liabilities:                            |                                 |                    |                    |                                  |
| Agency Liabilities                      | \$ 3,389                        | \$ 1,950           | \$ 190             | \$ 5,149                         |
| Total Liabilities                       | <u>\$ 3,389</u>                 | <u>\$ 1,950</u>    | <u>\$ 190</u>      | <u>\$ 5,149</u>                  |



|                                   | <b>Balance<br/>July 1, 2006</b> | <b>Additions</b>   | <b>Deductions</b>  | <b>Balance<br/>June 30, 2007</b> |
|-----------------------------------|---------------------------------|--------------------|--------------------|----------------------------------|
| <b>Other Agency Funds</b>         |                                 |                    |                    |                                  |
| Assets:                           |                                 |                    |                    |                                  |
| Cash and Cash Equivalents         | \$20,734                        | \$ 211,656         | \$ 211,108         | \$21,282                         |
| Equity in Pooled Cash Equivalents | 4,178                           | 511                | 402                | 4,287                            |
| Other Receivables                 | 5,000                           | —                  | 2,500              | 2,500                            |
| Accrued Interest Receivable       | <u>17</u>                       | <u>19</u>          | <u>17</u>          | <u>19</u>                        |
| Total Assets                      | <u>\$29,929</u>                 | <u>\$ 212,186</u>  | <u>\$ 214,027</u>  | <u>\$28,088</u>                  |
| Liabilities:                      |                                 |                    |                    |                                  |
| Accounts Payable                  | \$ 1,124                        | \$ 5,821           | \$ 5,752           | \$ 1,193                         |
| Agency Liabilities                | <u>28,805</u>                   | <u>217,938</u>     | <u>219,848</u>     | <u>26,895</u>                    |
| Total Liabilities                 | <u>\$29,929</u>                 | <u>\$ 223,759</u>  | <u>\$ 225,600</u>  | <u>\$28,088</u>                  |
| <b>Total - All Agency Funds</b>   |                                 |                    |                    |                                  |
| Assets:                           |                                 |                    |                    |                                  |
| Cash and Cash Equivalents         | \$32,384                        | \$1,967,536        | \$1,962,430        | \$37,490                         |
| Equity in Pooled Cash Equivalents | 23,275                          | 4,682              | 5,137              | 22,820                           |
| Other Receivables                 | 5,000                           | —                  | 2,500              | 2,500                            |
| Accrued Interest Receivable       | <u>92</u>                       | <u>102</u>         | <u>92</u>          | <u>102</u>                       |
| Total Assets                      | <u>\$60,751</u>                 | <u>\$1,972,320</u> | <u>\$1,970,159</u> | <u>\$62,912</u>                  |
| Liabilities:                      |                                 |                    |                    |                                  |
| Accounts Payable                  | \$ 1,124                        | \$ 177,328         | \$ 177,259         | \$ 1,193                         |
| Due to Other Governments          | 6,679                           | 1,915,296          | 1,912,636          | 9,339                            |
| Agency Liabilities                | <u>52,948</u>                   | <u>234,283</u>     | <u>234,851</u>     | <u>52,380</u>                    |
| Total Liabilities                 | <u>\$60,751</u>                 | <u>\$2,326,907</u> | <u>\$2,324,746</u> | <u>\$62,912</u>                  |



# *DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS*

## *Nonmajor Component Units*

**Educational Broadcasting Authority** The Authority is responsible for extending educational, cultural, and informational experiences to all citizens of the State through the construction and operation of noncommercial, educational television and radio stations, and related facilities. Revenues for operations are derived primarily through private donations, with additional supplements from Federal and State grants.

**Jobs Investment Trust** The Board is responsible for improving and promoting economic development in the State. It can issue loans to businesses that will stimulate economic growth and provide or retain jobs in the State.

**West Virginia State Rail Authority** The Authority is responsible for the rehabilitation, improvement, and restoration of the financial stability of the railway system in the State, enabling it to remain a viable mode of transportation for the public sector. The Authority, empowered to issue bonds and set rates for the rail system, additionally receives Federal and State grants to supplement the cost of operations.

**Solid Waste Management Board** The Board is responsible for the improved collection and disposal of solid wastes, and for encouraging recycling, reuse, or recovery of resources from wastes. The intent of the Board is to become a viable financing mechanism for solid waste projects in West Virginia, and it is empowered to issue bonds and set rate structures at its discretion.

**Racing Commission** The Commission has full jurisdiction and supervision over all horse and dog race meetings, and all persons involved in the holding or conducting of horse or dog race meetings. It can fix the annual fee for permits and registrations. Other racing taxes and fees are set by West Virginia State Code, Chapter 19, Article 23.

**Public Defenders Corporation** The Corporation is responsible for fulfilling the State's obligation to provide legal representation to eligible clients. Funding of the individual public defender corporations is by appropriation determined by the executive director of the Public Defender Services.

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**Combining Statement of Net Assets**  
**Nonmajor Discretely Presented Component Units**  
**June 30, 2007**  
**(Expressed in Thousands)**

|   | <b>Educational<br/>Broadcasting<br/>Authority</b> | <b>Jobs<br/>Investment<br/>Trust</b> | <b>WV State<br/>Rail<br/>Authority</b> |
|---|---|--------------------------------------|--|
| Assets:   |   |                                      |  |
| Current Assets:                                   |   |                                      |  |
| Cash and Cash Equivalents                         | \$1,145   | \$11,441                             | \$ 1,920                               |
| Investments                                       | 188   | 7,244                                | —                                      |
| Receivables, Net                                  | 277   | 1,754                                | 22                                     |
| Due from Primary Government                       | 75  | —                                    | 709                                    |
| Inventories                                       | —   | —                                    | 51                                     |
| Other Assets                                      | 95  | 643                                  | 8                                      |
| Restricted Assets:                                |   |                                      |  |
| Cash and Cash Equivalents                         | —   | —                                    | 565                                    |
| Other Restricted Assets                           | —   | —                                    | —                                      |
| Total Current Assets                              | <u>1,780</u>                                      | <u>21,082</u>                        | <u>3,275</u>                           |
| Noncurrent Assets:                                |   |                                      |  |
| Restricted Assets:                                |   |                                      |  |
| Other Restricted Assets                           | 386   | —                                    | —                                      |
| Capital Assets, Net                               | <u>6,127</u>                                      | <u>867</u>                           | <u>35,854</u>                          |
| Total Noncurrent Assets                           | <u>6,513</u>                                      | <u>867</u>                           | <u>35,854</u>                          |
| Total Assets                                      | <u>8,293</u>                                      | <u>21,949</u>                        | <u>39,129</u>                          |
| Liabilities:                                      |   |                                      |  |
| Current Liabilities:                              |   |                                      |  |
| Accounts Payable                                  | 155   | 4                                    | 714                                    |
| Accrued and Other Liabilities                     | —   | 241                                  | 59                                     |
| Unearned Revenue                                  | 131   | —                                    | —                                      |
| Due to Primary Government                         | 17  | 3                                    | 38                                     |
| Capital Leases and Other Debt                     | —   | —                                    | 425                                    |
| Compensated Absences                              | <u>286</u>  | <u>—</u>                             | <u>59</u>                              |
| Total Current Liabilities                         | <u>589</u>  | <u>248</u>                           | <u>1,295</u>                           |
| Noncurrent Liabilities:                           |   |                                      |  |
| Liabilities Payable from Restricted Assets        | —   | —                                    | —                                      |
| Accrued and Other Liabilities                     | —   | —                                    | —                                      |
| Capital Leases and Other Debt                     | —   | 21,183                               | —                                      |
| Compensated Absences                              | <u>954</u>  | <u>—</u>                             | <u>133</u>                             |
| Total Noncurrent Liabilities                      | <u>954</u>  | <u>21,183</u>                        | <u>133</u>                             |
| Total Liabilities                                 | <u>1,543</u>                                      | <u>21,431</u>                        | <u>1,428</u>                           |
| Net Assets:                                       |   |                                      |  |
| Investment in Capital Assets, Net of Related Debt | 6,127   | 867                                  | 35,429                                 |
| Restricted for Specific Component Unit Purposes   | 386   | —                                    | —                                      |
| Unrestricted                                      | <u>237</u>  | <u>(349)</u>                         | <u>2,272</u>                           |
| Total Net Assets                                  | <u>\$6,750</u>                                    | <u>\$ 518</u>                        | <u>\$37,701</u>                        |

| <b>Solid<br/>Waste<br/>Management<br/>Board</b> | <b>Racing<br/>Commission</b> | <b>Public<br/>Defender<br/>Corporation</b> | <b>Total</b>     |
|---|------------------------------|--|------------------|
| \$2,236   | \$ 5,574                     | \$3,336                                    | \$ 25,652        |
| —   | —                            | —  | 7,432            |
| 94  | 531                          | —  | 2,678            |
| —   | —                            | —  | 784              |
| —   | —                            | —  | 51               |
| 1   | —                            | 37   | 784              |
| 1,662   | 28,536                       | —  | 30,763           |
| 259   | —                            | —  | 259              |
| <u>4,252</u>                                    | <u>34,641</u>                | <u>3,373</u>                               | <u>68,403</u>    |
| 2,465   | —                            | —  | 2,851            |
| 11  | 12                           | 637  | 43,508           |
| <u>2,476</u>                                    | <u>12</u>                    | <u>637</u>                                 | <u>46,359</u>    |
| 6,728   | 34,653                       | 4,010                                      | 114,762          |
| 52  | 630                          | 3  | 1,558            |
| —   | —                            | 78   | 378              |
| —   | —                            | —  | 131              |
| 1   | 6                            | 52   | 117              |
| —   | —                            | 19   | 444              |
| —   | —                            | —  | 345              |
| <u>53</u>                                       | <u>636</u>                   | <u>152</u>                                 | <u>2,973</u>     |
| —   | 28,536                       | —  | 28,536           |
| 398   | —                            | —  | 398              |
| —   | —                            | 132  | 21,315           |
| 72  | 338                          | 582  | 2,079            |
| <u>470</u>                                      | <u>28,874</u>                | <u>714</u>                                 | <u>52,328</u>    |
| <u>523</u>                                      | <u>29,510</u>                | <u>866</u>                                 | <u>55,301</u>    |
| 11  | 12                           | 637  | 43,083           |
| 4,187   | —                            | —  | 4,573            |
| <u>2,007</u>                                    | <u>5,131</u>                 | <u>2,507</u>                               | <u>11,805</u>    |
| <u>\$6,205</u>                                  | <u>\$ 5,143</u>              | <u>\$3,144</u>                             | <u>\$ 59,461</u> |

**Combining Statement of Activities**  
**Nonmajor Discretely Presented Component Units**  
**For the Fiscal Year Ended June 30, 2007**  
**(Expressed in Thousands)**

|                                    |                 | <u>Program Revenues</u>             |   |                                      |
|------------------------------------|-----------------|-------------------------------------|---|--------------------------------------|
|                                    | <u>Expenses</u> | <u>Charges<br/>for<br/>Services</u> | <u>Operating<br/>Grants<br/>and<br/>Contributions</u> | <u>Net<br/>(Expense)<br/>Revenue</u> |
| Component Units:                   |                 |                                     |   |                                      |
| Educational Broadcasting Authority | \$10,885        | \$ 2,701                            | \$1,327   | \$ (6,857)                           |
| Jobs Investment Trust              | 3,576           | 157                                 | —   | (3,419)                              |
| WV State Rail Authority            | 3,654           | 2,121                               | —   | (1,533)                              |
| Solid Waste Management Board       | 2,138           | 2,262                               | —   | 124                                  |
| Racing Commission                  | 6,033           | 4,633                               | —   | (1,400)                              |
| Public Defender Corporation        | <u>13,762</u>   | <u>—</u>                            | <u>—</u>  | <u>(13,762)</u>                      |
| Total Component Units              | <u>\$40,048</u> | <u>\$11,874</u>                     | <u>\$1,327</u>  | <u>\$(26,847)</u>                    |

| General Revenue                        |   |               |   |                             |                               |  |                                  |
|--|---|---------------|---|-----------------------------|-------------------------------|--|----------------------------------|
| Unrestricted<br>Investment<br>Earnings | Grants and<br>Contributions<br>Not Restricted<br>for Specific<br>Programs | Miscellaneous | Payments<br>from the<br>State of<br>West Virginia | Total<br>General<br>Revenue | Change<br>in<br>Net<br>Assets | Net<br>Assets,<br>Beginning<br>of Year,<br>as Restated | Net<br>Assets,<br>End<br>of Year |
| \$ 37                                  | \$305   | \$35          | \$ 5,627  | \$ 6,004                    | \$ (853)                      | \$ 7,603   | \$ 6,750                         |
| 579                                    | —   | —             | —   | 579                         | (2,840)                       | 3,358  | 518                              |
| 104                                    | —   | —             | 3,176   | 3,280                       | 1,747                         | 35,954   | 37,701                           |
| 32                                     | —   | —             | —   | 32                          | 156                           | 6,049  | 6,205                            |
| 2                                      | —   | —             | —   | 2                           | (1,398)                       | 6,541  | 5,143                            |
| <u>24</u>                              | <u>—</u>  | <u>16</u>     | <u>14,699</u>                                     | <u>14,739</u>               | <u>977</u>                    | <u>2,167</u>   | <u>3,144</u>                     |
| <u>\$778</u>                           | <u>\$305</u>  | <u>\$51</u>   | <u>\$23,502</u>                                   | <u>\$24,636</u>             | <u>\$(2,211)</u>              | <u>\$61,672</u>  | <u>\$59,461</u>                  |







# Statistical Section

Financial Trends

Revenue Capacity

Debt Capacity

Demographics and  
Economic Information

Operating Information

Miscellaneous



**Statistical Section  
Index**

Financial Trends - These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

|  |     |
|--|-----|
| Schedule 1 - Net Assets by Component .....                       | 219 |
| Schedule 2 - Changes in Net Assets .....                         | 220 |
| Schedule 3 - Fund Balances - Governmental Funds .....            | 224 |
| Schedule 4 - Changes in Fund Balances - Governmental Funds ..... | 226 |

Revenue Capacity Information - These schedules contain trend information to help the reader understand the State's capacity to raise revenues and the sources of those revenues.

|  |     |
|--|-----|
| Schedule 5 - Revenue Base .....                        | 228 |
| Schedule 6 - Revenue Rates .....                       | 230 |
| Schedule 7 - Revenue Payers by Industry/Category ..... | 232 |

Debt Capacity Information - These schedules contain trend information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future.

|   |     |
|---|-----|
| Schedule 8 - Ratios of Outstanding Debt ..... | 234 |
| Schedule 9 - Pledged Revenue Coverage .....   | 236 |

Demographics and Economic Information - These schedules offer indicators to help the reader understand the environment within which the government's financial activities take place.

|  |     |
|--|-----|
| Schedule 10 - Demographics and Economic Indicators ..... | 240 |
| Schedule 11 - Principal Employers .....                  | 242 |
| Schedule 12 - Education Enrollment .....                 | 243 |

Operating Information - These schedules assist the reader in evaluating the size, efficiency, and effectiveness of the state government.

|   |     |
|---|-----|
| Schedule 13 - State Employees by Function .....           | 244 |
| Schedule 14 - Operating Indicators by Function .....      | 246 |
| Schedule 15 - Capital Assets Statistics by Function ..... | 248 |

Miscellaneous Statistics - This information may provide the reader with more insight into the State's financial and demographic status.

|  |     |
|--|-----|
| Schedule 16 - Miscellaneous Statistics ..... | 250 |
|--|-----|

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

**Schedule 1**  
**Net Assets by Component**  
**Last Six Fiscal Years**  
**(Expressed in Thousands)**

|  | <b>2007</b>          | <b>2006</b>          | <b>2005<br/>Restated</b> | <b>2004<br/>Restated</b> | <b>2003</b>          | <b>2002</b>          |
|--|----------------------|----------------------|--------------------------|--------------------------|----------------------|----------------------|
| <b>Governmental Activities</b>                                     |                      |                      |                          |                          |                      |                      |
| Invested in Capital Assets,<br>Net of Related Debt                 | \$6,934,539          | \$ 6,771,494         | \$ 6,448,005             | \$ 6,196,704             | \$ 5,910,605         | \$ 5,424,495         |
| Restricted   | 861,508              | 714,802              | 1,262,989                | 1,078,859                | 772,580              | 523,238              |
| Unrestricted Assets (Deficit)                                      | <u>846,987</u>       | <u>91,573</u>        | <u>(817,257)</u>         | <u>(667,181)</u>         | <u>(548,510)</u>     | <u>(549,510)</u>     |
| <b>Total Governmental Activities<br/>Net Assets</b>                | <u>\$8,643,034</u>   | <u>\$ 7,577,869</u>  | <u>\$ 6,893,737</u>      | <u>\$ 6,608,382</u>      | <u>\$ 6,134,675</u>  | <u>\$ 5,398,223</u>  |
| <b>Business-type Activities</b>                                    |                      |                      |                          |                          |                      |                      |
| Invested in Capital Assets,<br>Net of Related Debt                 | \$ 4,049             | \$ 2,775             | \$ 9,361                 | \$ 9,372                 | \$ 10,900            | \$ 10,169            |
| Restricted   | 1,026,973            | 944,256              | 775,140                  | 687,891                  | 809,685              | 821,418              |
| Unrestricted Assets (Deficit)*                                     | <u>(1,704,657)</u>   | <u>(2,017,602)</u>   | <u>(2,224,984)</u>       | <u>(2,897,674)</u>       | <u>(3,256,853)</u>   | <u>(2,645,138)</u>   |
| <b>Total Business-type Activities<br/>Net Assets<br/>(Deficit)</b> | <u>\$ ( 673,635)</u> | <u>\$(1,070,571)</u> | <u>\$(1,440,483)</u>     | <u>\$(2,200,411)</u>     | <u>\$(2,436,268)</u> | <u>\$(1,813,551)</u> |
| <b>Primary Government</b>  |                      |                      |                          |                          |                      |                      |
| Invested in Capital Assets,<br>Net of Related Debt                 | \$6,938,588          | \$ 6,774,269         | \$ 6,457,366             | \$ 6,206,076             | \$ 5,921,505         | \$ 5,434,664         |
| Restricted   | 1,888,481            | 1,659,058            | 2,038,129                | 1,766,750                | 1,582,265            | 1,344,656            |
| Unrestricted Assets (Deficit)                                      | <u>(857,670)</u>     | <u>(1,926,029)</u>   | <u>(3,042,241)</u>       | <u>(3,564,855)</u>       | <u>(3,805,363)</u>   | <u>(3,194,648)</u>   |
| <b>Total Primary Government<br/>Net Assets</b>                     | <u>\$7,969,399</u>   | <u>\$ 6,507,298</u>  | <u>\$ 5,453,254</u>      | <u>\$ 4,407,971</u>      | <u>\$ 3,698,407</u>  | <u>\$ 3,584,672</u>  |

Note: The State implemented Governmental Accounting Standards Boards Statement No. 34 during fiscal year 2002; the relevant government-wide schedules are effective beginning in fiscal year 2002.

\*The Workers' Compensation Fund (WCF) had negative claims payment trends during fiscal years ended June 30, 2001 and 2002, which continued into fiscal 2003. In June 2003, a special legislative session passed several pieces of legislation making major changes to the workers' compensation laws that became effective in fiscal year 2004. These changes caused the WCF deficit to improve. In February 2005, additional legislation was passed that caused the formation of an employer's mutual insurance company to replace the WCF. The "workers' compensation old fund" was created for those funds due and owing the workers' compensation fund as of June 30, 2005. The old fund did not novate to the new employer's mutual.

**Schedule 2**  
**Changes in Net Assets**  
**Last Six Fiscal Years**  
**(Expressed in Thousands)**

|  | <u>2007</u>        | <u>2006</u>        | <u>2005</u><br><u>Restated</u> |
|--|--------------------|--------------------|--------------------------------|
| <b>Governmental Activities</b>                     |                    |                    |                                |
| Expenses:  |                    |                    |                                |
| Legislative  | \$ 26,154          | \$ 25,345          | \$ 27,558                      |
| Judicial   | 88,209             | 77,789             | 77,668                         |
| Executive  | 114,547            | 104,726            | 134,506                        |
| Administration                                     | 153,677            | 147,774            | 210,434                        |
| Commerce   | 218,610            | 235,749            | 229,216                        |
| Environmental Protection                           | 225,458            | 125,216            | 267,544                        |
| Employment Programs                                | 53,617             | 72,069             | 31,445                         |
| Education  | 2,454,835          | 2,669,307          | 2,418,672                      |
| Health and Human Resources                         | 3,254,172          | 3,119,005          | 3,221,458                      |
| Military Affairs and Public Safety                 | 360,443            | 417,606            | 588,409                        |
| Revenue  | 70,148             | 71,158             | 32,718                         |
| Transportation                                     | 778,817            | 780,950            | 835,813                        |
| Senior Services                                    | 32,195             | 30,115             | 29,373                         |
| Regulatory Boards and Commissions                  | 34,212             | 33,082             | 25,671                         |
| Interest on Long-Term Debt                         | <u>94,475</u>      | <u>93,401</u>      | <u>85,402</u>                  |
| Total Expenses                                     | <u>7,959,569</u>   | <u>8,003,292</u>   | <u>8,215,887</u>               |
| Program Revenues:                                  |                    |                    |                                |
| Charges for Services:                              |                    |                    |                                |
| Legislative  | 1,757              | 1,824              | 1,859                          |
| Judicial   | 869                | 919                | 901                            |
| Executive  | 12,024             | 15,872             | 1,223                          |
| Administration                                     | 24,812             | 49,492             | 12,390                         |
| Commerce   | 44,114             | 41,885             | 42,115                         |
| Environmental Protection                           | 56,621             | 54,877             | 55,254                         |
| Employment Programs                                | —                  | —                  | —                              |
| Education  | 3,008              | 4,465              | 4,133                          |
| Health and Human Resources                         | 83,230             | 84,428             | 82,325                         |
| Military Affairs and Public Safety                 | 10,165             | 5,317              | 8,884                          |
| Revenue  | 65,364             | 44,229             | 26,303                         |
| Transportation                                     | 96,068             | 97,064             | 99,532                         |
| Senior Services                                    | —                  | —                  | —                              |
| Regulatory Boards and Commissions                  | <u>21,638</u>      | <u>26,789</u>      | <u>23,017</u>                  |
| Total Charges for Services                         | <u>419,670</u>     | <u>427,161</u>     | <u>357,936</u>                 |
| Operating Grants and Contributions:                |                    |                    |                                |
| Legislative  | 1,269              | 545                | 646                            |
| Judicial   | 380                | 436                | —                              |
| Executive  | 38,249             | 27,138             | 45,805                         |
| Administration                                     | 37,945             | 56,748             | 52,316                         |
| Commerce   | 47,463             | 32,749             | 76,340                         |
| Environmental Protection                           | 53,301             | 44,255             | 88,395                         |
| Employment Programs                                | 54,690             | 65,303             | 30,805                         |
| Education  | 388,305            | 369,428            | 358,853                        |
| Health and Human Resources                         | 2,235,552          | 2,224,260          | 2,285,865                      |
| Military Affairs and Public Safety                 | 52,708             | 60,756             | 95,874                         |
| Revenue  | 66,214             | 214                | 200                            |
| Senior Services                                    | 11,637             | 11,594             | 12,634                         |
| Regulatory Boards and Commissions                  | <u>2,267</u>       | <u>4,376</u>       | <u>8,306</u>                   |
| Total Operating Grants and Contributions           | <u>2,989,980</u>   | <u>2,897,802</u>   | <u>3,056,039</u>               |
| Capital Grants and Contributions:                  |                    |                    |                                |
| Administration                                     | 4,001              | —                  | —                              |
| Education  | 31                 | 233                | 217                            |
| Military Affairs and Public Safety                 | 5,423              | 10,127             | 26,255                         |
| Transportation                                     | <u>410,669</u>     | <u>447,727</u>     | <u>453,719</u>                 |
| Total Capital Grants and Contributions             | <u>420,124</u>     | <u>458,087</u>     | <u>480,191</u>                 |
| Total Program Revenues                             | <u>3,829,774</u>   | <u>3,783,050</u>   | <u>3,894,166</u>               |
| Total Governmental Activities Net Program Expenses | <u>(4,129,795)</u> | <u>(4,220,242)</u> | <u>(4,321,721)</u>             |

Note: This information was not available prior to GASB 34 implementation in 2002.

| <b>2004</b><br><b>Restated</b> | <b>2003</b>        | <b>2002</b>        |
|--------------------------------|--------------------|--------------------|
| \$ 30,623                      | \$ 28,009          | \$ 19,742          |
| 83,653                         | 77,487             | 72,387             |
| 115,413                        | 127,350            | 121,744            |
| 136,960                        | 148,812            | 139,177            |
| 259,071                        | 225,886            | 193,483            |
| 1,410                          | 71,278             | 110,661            |
| 39,007                         | 35,115             | 47,520             |
| 2,399,688                      | 2,373,873          | 2,299,817          |
| 3,056,163                      | 2,683,578          | 2,605,461          |
| 324,636                        | 296,165            | 253,806            |
| 68,596                         | 39,705             | 27,240             |
| 753,901                        | 755,565            | 1,056,651          |
| 29,271                         | 28,523             | 30,538             |
| 45,145                         | 30,177             | 24,376             |
| <u>76,406</u>                  | <u>74,027</u>      | <u>75,553</u>      |
| <u>7,419,943</u>               | <u>6,995,550</u>   | <u>7,078,156</u>   |
| 1,806                          | 1,763              | 1,956              |
| 925                            | 929                | 916                |
| 5,274                          | 251                | 7,286              |
| 25,606                         | 6,692              | 17,435             |
| 40,658                         | 37,688             | 43,772             |
| 46,730                         | 50,326             | 41,911             |
| 283                            | —                  | —                  |
| 3,846                          | 3,383              | 4,791              |
| 73,150                         | 56,631             | 72,335             |
| 6,679                          | 5,957              | 6,636              |
| 26,683                         | 25,089             | 20,249             |
| 88,777                         | 93,569             | 95,673             |
| —                              | —                  | 285                |
| <u>31,641</u>                  | <u>27,033</u>      | <u>26,077</u>      |
| <u>352,058</u>                 | <u>309,311</u>     | <u>339,322</u>     |
| 749                            | 525                | 5,008              |
| 156                            | (35)               | 136                |
| 39,587                         | 46,974             | 34,205             |
| 46,288                         | 34,987             | 27,146             |
| 74,990                         | 82,009             | 63,335             |
| 88,183                         | 71,934             | 70,221             |
| 36,995                         | 35,594             | 48,331             |
| 324,292                        | 311,847            | 310,091            |
| 2,179,003                      | 1,998,922          | 1,869,026          |
| 81,767                         | 65,847             | 92,131             |
| 30                             | 9                  | 46                 |
| 12,148                         | 11,664             | 12,178             |
| <u>7,460</u>                   | <u>2,045</u>       | <u>1,484</u>       |
| <u>2,891,648</u>               | <u>2,662,322</u>   | <u>2,533,338</u>   |
| 213                            | 19                 | 130                |
| 99                             | —                  | —                  |
| 38,731                         | 11,303             | —                  |
| <u>438,974</u>                 | <u>411,280</u>     | <u>424,558</u>     |
| <u>478,017</u>                 | <u>422,602</u>     | <u>424,688</u>     |
| <u>3,721,723</u>               | <u>3,394,235</u>   | <u>3,297,348</u>   |
| <u>(3,698,220)</u>             | <u>(3,601,315)</u> | <u>(3,780,808)</u> |

(Continued)

**Schedule 2**  
**Changes in Net Assets**  
**Last Six Fiscal Years**  
**(Expressed in Thousands)**  
**(Continued)**

|   | <b>2007</b>               | <b>2006</b>               | <b>2005<br/>Restated</b>  |
|---|---------------------------|---------------------------|---------------------------|
| General Revenues and Other Changes in Net Assets                                |                           |                           |                           |
| Taxes:  |                           |                           |                           |
| Personal Income   | 1,372,646                 | 1,330,913                 | 1,163,211                 |
| Consumer Sales  | 1,020,128                 | 981,536                   | 979,357                   |
| Business  | 906,022                   | 920,940                   | 726,878                   |
| Medicaid  | 162,692                   | 169,866                   | 154,070                   |
| Transportation  | 535,979                   | 501,022                   | 502,659                   |
| Other   | 393,400                   | 382,718                   | 377,878                   |
| Entitlements and Grants   | —                         | 229                       | 912                       |
| Unrestricted Investment Earnings  | 105,317                   | 71,233                    | 54,240                    |
| Tobacco Settlement Revenues   | 48,294                    | 33,137                    | 56,825                    |
| Federal Appropriations - Jobs Growth Tax Relief                                 | —                         | —                         | —                         |
| Miscellaneous   | 111,277                   | 74,047                    | 93,281                    |
| Special Item  | —                         | —                         | —                         |
| Transfers   | <u>539,205</u>            | <u>438,733</u>            | <u>484,308</u>            |
| Total General Revenue, Special Item, and Transfers                              | <u>5,194,960</u>          | <u>4,904,374</u>          | <u>4,593,619</u>          |
| <b>Total Governmental Activities Changes in Net Assets</b>                      | <b><u>\$1,065,165</u></b> | <b><u>\$ 684,132</u></b>  | <b><u>\$ 271,898</u></b>  |
| <b>Business-type Activities</b>   |                           |                           |                           |
| Expenses:   |                           |                           |                           |
| West Virginia Lottery   | \$1,081,336               | \$1,096,893               | \$ 839,241                |
| Water Pollution Control Revolving Fund  | 1,630                     | 1,718                     | 1,786                     |
| Workers' Compensation Fund  | 81,459                    | 392,975                   | 189,753                   |
| Unemployment Compensation   | 153,663                   | 147,308                   | 143,989                   |
| Public Employees' Insurance Agency  | 379,742                   | 545,384                   | 506,837                   |
| Board of Risk and Insurance Management  | 39,441                    | 41,256                    | 60,969                    |
| Other Business-type Activities  | <u>76,785</u>             | <u>66,631</u>             | <u>58,910</u>             |
| Total Expenses  | 1,814,056                 | 2,292,165                 | 1,801,485                 |
| Program Revenues:   |                           |                           |                           |
| Charges for Services:   |                           |                           |                           |
| West Virginia Lottery   | 1,562,259                 | 1,522,532                 | 1,399,073                 |
| Water Pollution Control Revolving Fund  | 3,744                     | 3,383                     | 2,953                     |
| Workers' Compensation Fund  | 235,664                   | 524,269                   | 718,382                   |
| Unemployment Compensation   | 147,091                   | 148,731                   | 144,030                   |
| Public Employees' Insurance Agency  | 406,311                   | 567,107                   | 525,130                   |
| Board of Risk and Insurance Management  | 74,097                    | 78,787                    | 85,123                    |
| Other Business-type Activities  | <u>77,553</u>             | <u>73,155</u>             | <u>67,553</u>             |
| Total Charges for Services  | 2,506,719                 | 2,917,964                 | 2,942,244                 |
| Operating Grants and Contributions:   |                           |                           |                           |
| Unemployment Compensation   | —                         | —                         | —                         |
| Total Operating Grants and Contributions  | —                         | —                         | —                         |
| Capital Grants and Contributions:   |                           |                           |                           |
| Water Pollution Control Revolving Fund  | 12,627                    | 20,241                    | —                         |
| West Virginia Lottery   | —                         | —                         | —                         |
| Total Capital Grants and Contributions  | <u>12,627</u>             | <u>20,241</u>             | <u>—</u>                  |
| Total Revenues  | <u>2,519,346</u>          | <u>2,938,205</u>          | <u>2,942,244</u>          |
| Total Business-type Activities Net Program Expenses                             | <u>705,290</u>            | <u>646,040</u>            | <u>1,140,759</u>          |
| Business-type Activities General Revenues and Other Changes in Net Assets       |                           |                           |                           |
| Unrestricted Investment Earnings  | 189,761                   | 65,758                    | 104,011                   |
| Tobacco Settlement Revenue  | 15,000                    | 45,000                    | —                         |
| Miscellaneous   | 26,090                    | 51,847                    | (534)                     |
| Transfers   | <u>(539,205)</u>          | <u>(438,733)</u>          | <u>(484,308)</u>          |
| Total Business-type Activities General Revenues and Other Changes in Net Assets | <u>(308,354)</u>          | <u>(276,128)</u>          | <u>(380,831)</u>          |
| <b>Total Business-type Activities Changes in Net Assets</b>                     | <b><u>\$ 396,936</u></b>  | <b><u>\$ 369,912</u></b>  | <b><u>\$ 759,928</u></b>  |
| <b>Total Primary Government Change in Net Assets</b>                            | <b><u>\$1,462,101</u></b> | <b><u>\$1,054,044</u></b> | <b><u>\$1,031,826</u></b> |

| <b><u>2004</u></b><br><b><u>Restated</u></b> | <b><u>2003</u></b>  | <b><u>2002</u></b>  |
|--|---------------------|---------------------|
| 1,073,512                                    | 1,048,172           | 1,052,023           |
| 965,378                                      | 917,072             | 925,317             |
| 554,734                                      | 551,910             | 585,182             |
| 150,335                                      | 143,036             | 146,812             |
| 477,159                                      | 466,273             | 481,436             |
| 359,341                                      | 291,776             | 263,966             |
| —  | —                   | —                   |
| 15,753                                       | 52,446              | 55,038              |
| 53,850                                       | 32,521              | 32,430              |
| 30,746                                       | 30,747              | —                   |
| 52,123                                       | 127,287             | 93,988              |
| —  | —                   | (85,262)            |
| <u>411,164</u>                               | <u>355,533</u>      | <u>267,446</u>      |
| <u>4,144,095</u>                             | <u>4,016,773</u>    | <u>3,818,376</u>    |
| <u>\$ 445,875</u>                            | <u>\$ 415,458</u>   | <u>\$ 37,568</u>    |
| <br>   |                     |                     |
| \$ 776,124                                   | \$ 670,041          | \$ 563,078          |
| 1,914  | 1,752               | 1,821               |
| 579,433                                      | 1,276,891           | 1,148,221           |
| 195,359                                      | 224,897             | 173,934             |
| 449,905                                      | 410,413             | 395,743             |
| 96,658                                       | 82,591              | 71,706              |
| <u>62,202</u>                                | <u>55,082</u>       | <u>74,681</u>       |
| 2,161,595                                    | 2,721,667           | 2,429,184           |
| <br>   |                     |                     |
| 1,303,434                                    | 1,081,894           | 848,598             |
| 2,843  | 2,862               | 2,369               |
| 628,682                                      | 549,742             | 539,402             |
| 137,872                                      | 133,840             | 138,210             |
| 505,995                                      | 438,056             | 366,701             |
| 105,435                                      | 73,281              | 46,670              |
| <u>63,754</u>                                | <u>62,088</u>       | <u>63,171</u>       |
| 2,748,015                                    | 2,341,763           | 2,005,121           |
| <br>   |                     |                     |
| <u>21,681</u>                                | <u>30,733</u>       | <u>48,613</u>       |
| 21,681                                       | 30,733              | 48,613              |
| <br>   |                     |                     |
| —  | —                   | —                   |
| —  | —                   | <u>5,250</u>        |
| —  | —                   | <u>5,250</u>        |
| <u>2,769,696</u>                             | <u>2,372,496</u>    | <u>2,058,984</u>    |
| <br>   |                     |                     |
| <u>608,101</u>                               | <u>(349,171)</u>    | <u>(370,200)</u>    |
| <br>   |                     |                     |
| 51,190                                       | 75,250              | 3,204               |
| —  | —                   | —                   |
| (12,270)                                     | 6,737               | 83,448              |
| <u>(411,164)</u>                             | <u>(355,533)</u>    | <u>(267,446)</u>    |
| <br>   |                     |                     |
| <u>(372,244)</u>                             | <u>(273,546)</u>    | <u>(180,794)</u>    |
| <br>   |                     |                     |
| <u>\$ 235,857</u>                            | <u>\$ (622,717)</u> | <u>\$ (550,994)</u> |
| <br>   |                     |                     |
| <u>\$ 681,732</u>                            | <u>\$ (207,259)</u> | <u>\$ (513,426)</u> |

**Schedule 3**  
**Fund Balances**  
**Governmental Funds**  
**Last Six Fiscal Years**  
**(Expressed in Thousands)**

|  | <b><u>2007</u></b>        | <b><u>2006</u></b>        | <b><u>2005</u></b><br><b><u>Restated</u></b> |
|--|---------------------------|---------------------------|--|
| <b>General Fund</b>                                |                           |                           |  |
| Reserved   | \$ 343,380                | \$ 328,482                | \$ 486,474                                   |
| Unreserved   | <u>697,704</u>            | <u>1,079,851</u>          | <u>391,457</u>                               |
| <b>Total General Fund</b>                          | <u>1,041,084</u>          | <u>1,408,333</u>          | <u>877,931</u>                               |
| <b>Other Governmental Funds</b>                    |                           |                           |  |
| Reserved:  |                           |                           |  |
| Special Revenue Funds                              | \$ 457,109                | \$ 410,115                | \$ 363,526                                   |
| Permanent Funds                                    | 1,762                     | 1,886                     | 235,210                                      |
| Capital Projects                                   | 264,836                   | 236,561                   | —  |
| Debt Service                                       | 228,699                   | 131,765                   | —  |
| Unreserved, Reported in:                           |                           |                           |  |
| Special Revenue Funds                              | 1,488,498                 | 562,996                   | 539,296                                      |
| Capital Projects                                   | —                         | —                         | 276,443                                      |
| Debt Service                                       | <u>—</u>                  | <u>—</u>                  | <u>124,910</u>                               |
| <b>Total Other Governmental Funds</b>              | <u>2,440,904</u>          | <u>1,343,323</u>          | <u>1,539,385</u>                             |
| <b>Total Fund Balances,<br/>Governmental Funds</b> | <u><u>\$3,481,988</u></u> | <u><u>\$2,751,656</u></u> | <u><u>\$2,417,316</u></u>                    |

Note: GASB 34 was implemented in fiscal year 2002. This Standard required the reclassification of certain funds.



| <b>2004</b><br><b>Restated</b> | <b>2003</b>        | <b>2002</b>        |
|--------------------------------|--------------------|--------------------|
| \$ 529,986                     | \$ 316,594         | \$ 335,866         |
| <u>293,847</u>                 | <u>312,519</u>     | <u>251,520</u>     |
| <u>823,833</u>                 | <u>629,113</u>     | <u>587,386</u>     |
| <br>                           |                    |                    |
| \$ 338,275                     | \$ 291,364         | \$ 397,894         |
| 187,736                        | 141,903            | —                  |
| 136,845                        | 192,967            | 201,682            |
| 131,787                        | 96,072             | 93,423             |
| <br>                           |                    |                    |
| 471,373                        | 414,765            | 347,034            |
| —                              | —                  | —                  |
| <u>—</u>                       | <u>—</u>           | <u>—</u>           |
| <br>                           |                    |                    |
| <u>1,266,016</u>               | <u>1,137,071</u>   | <u>1,040,033</u>   |
| <br>                           |                    |                    |
| <u>\$2,089,849</u>             | <u>\$1,766,184</u> | <u>\$1,627,419</u> |

**Schedule 4**  
**Changes in Fund Balances**  
**Governmental Funds**  
**Last Ten Fiscal Years**  
**(Expressed in Thousands)**

| <b>Revenues</b>   | <b>2007</b>       | <b>2006</b>       | <b>2005</b>       | <b>2004<br/>(Restated)</b> |
|---|-------------------|-------------------|-------------------|----------------------------|
| Taxes:  |                   |                   |                   |                            |
| Personal Income   | \$1,370,566       | \$1,329,796       | \$1,170,202       | \$1,070,282                |
| Consumer Sales  | 1,019,631         | 989,642           | 978,115           | 963,327                    |
| Severance   | 340,544           | 355,680           | 287,774           | 211,236                    |
| Corporate Net Income                                    | 384,440           | 380,287           | 255,772           | 166,511                    |
| Business and Occupation                                 | 180,527           | 184,364           | 182,090           | 176,987                    |
| Medicaid  | 162,692           | 169,866           | 154,070           | 150,335                    |
| Business Franchise                                      | —                 | —                 | —                 | —                          |
| Gasoline and Motor Carrier                              | 364,550           | 330,538           | 320,891           | 275,471                    |
| Automobile Privilege                                    | 171,429           | 170,484           | 3,005             | 173,225                    |
| Wholesale Motor Fuel                                    | —                 | —                 | 178,763           | 28,463                     |
| Other   | 393,210           | 380,711           | 371,667           | 359,341                    |
| Intergovernmental                                       | 3,033,765         | 3,037,432         | 3,235,199         | 3,119,073                  |
| Licenses, Permits, and Fees                             | 216,504           | 194,681           | 173,181           | 176,513                    |
| Motor Vehicle Registration                              | 92,422            | 92,681            | 93,144            | 84,977                     |
| Charges for Services                                    | 117,970           | 121,420           | 120,759           | 108,387                    |
| Investment Earnings                                     | 184,957           | 101,736           | 79,534            | 40,562                     |
| Food Stamp Revenue                                      | 273,227           | 265,344           | 252,097           | 228,000                    |
| Other   | <u>136,117</u>    | <u>121,654</u>    | <u>156,780</u>    | <u>112,585</u>             |
| Total Revenues  | <u>8,442,551</u>  | <u>8,226,316</u>  | <u>8,013,043</u>  | <u>7,445,275</u>           |
| Expenditures  |                   |                   |                   |                            |
| Current:  |                   |                   |                   |                            |
| Legislature   | 26,389            | 25,322            | 27,594            | 30,634                     |
| Judicial  | 90,829            | 82,381            | 84,283            | 81,577                     |
| Executive   | 118,550           | 122,576           | 122,415           | 115,418                    |
| Administration  | 106,020           | 95,227            | 150,333           | 87,834                     |
| Commerce  | 228,570           | 243,092           | 224,147           | 273,748                    |
| Environmental Protection                                | 114,482           | 109,829           | 98,576            | 118,592                    |
| Employment Programs                                     | 58,488            | 75,438            | 36,609            | 40,183                     |
| Education   | 3,616,732         | 2,690,459         | 2,423,094         | 2,323,733                  |
| Health and Human Resources                              | 3,251,403         | 3,135,884         | 3,237,580         | 3,056,762                  |
| Military Affairs and Public Safety                      | 353,445           | 389,909           | 609,215           | 338,907                    |
| Revenue   | 76,257            | 42,725            | 60,630            | 44,765                     |
| Transportation  | 520,281           | 531,848           | 573,184           | 531,214                    |
| Senior Services   | 32,315            | 30,118            | 29,455            | 29,230                     |
| Regulatory Boards and Commissions                       | 34,691            | 33,345            | 27,561            | 44,680                     |
| Capital Outlay  | 502,232           | 550,415           | 490,195           | 573,295                    |
| Debt Service  | —                 | —                 | —                 | —                          |
| Principal   | 134,464           | 74,427            | 95,400            | 65,780                     |
| Interest  | <u>86,237</u>     | <u>89,788</u>     | <u>80,777</u>     | <u>74,386</u>              |
| Total Expenditures                                      | <u>9,351,385</u>  | <u>8,322,783</u>  | <u>8,371,048</u>  | <u>7,830,738</u>           |
| Excess of Revenues Over (Under) Expenditures            | (908,834)         | (96,467)          | (358,005)         | (385,463)                  |
| Other Financing Sources (Uses):                         |                   |                   |                   |                            |
| Face Value of Long-Term Debt Issued                     | 1,349,893         | 54,800            | 463,005           | 294,895                    |
| Premiums on Bonds Issued                                | 5,126             | 697               | 73,388            | —                          |
| Discounts on Bonds Issued                               | —                 | —                 | —                 | (1,719)                    |
| Capital Lease Acquisition                               | 190               | 13,359            | —                 | 15,050                     |
| Proceeds from Long-Term Obligations                     | —                 | —                 | —                 | —                          |
| Proceeds of Refunded Bonds                              | —                 | —                 | —                 | —                          |
| Payments to Refunded Bonds Escrow Agents                | (242,616)         | (56,062)          | (321,405)         | —                          |
| Transfers In  | 749,215           | 875,203           | 667,841           | 589,701                    |
| Transfer from Component Unit                            | —                 | —                 | —                 | —                          |
| Transfers Out   | (222,642)         | (457,190)         | (197,357)         | (188,799)                  |
| Transfer In from Component Unit                         | —                 | —                 | —                 | —                          |
| Transfers To Component Units                            | —                 | —                 | —                 | —                          |
| Other   | —                 | —                 | —                 | —                          |
| Total Other Financing Sources (Uses)                    | <u>1,639,166</u>  | <u>430,807</u>    | <u>685,472</u>    | <u>709,128</u>             |
| Net Changes in Fund Balances                            | <u>\$ 730,332</u> | <u>\$ 334,340</u> | <u>\$ 327,467</u> | <u>\$ 323,665</u>          |
| Debt Service as a Percentage of Noncapital Expenditures | 2.50%             | 2.12%             | 2.22%             | 1.93%                      |

Note: The State implemented Governmental Accounting Standards Boards Statement No. 34 during fiscal year 2002; the relevant

| <u>2003</u>       | <u>2002</u>       | <u>2001</u>      | <u>2000</u>      | <u>1999</u>       | <u>1998</u>       |
|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| \$1,038,181       | \$1,049,532       | \$1,023,536      | \$ 985,976       | \$ 917,765        | \$ 871,803        |
| 917,072           | 922,882           | 878,355          | 878,690          | 852,815           | 817,406           |
| 193,680           | 187,287           | 194,223          | 169,914          | 180,775           | 204,891           |
| 83,311            | 93,846            | 106,974          | 123,271          | 159,475           | 143,716           |
| 178,364           | 173,839           | 178,860          | 166,883          | 182,268           | 180,475           |
| 143,036           | 146,812           | 146,053          | 134,274          | 127,497           | 124,458           |
| 96,555            | 129,457           | 100,551          | 100,465          | 93,744            | 81,036            |
| 227,793           | 229,650           | 227,805          | 224,029          | 225,761           | 223,068           |
| 169,431           | 180,472           | 155,623          | 153,927          | 143,356           | 134,354           |
| 69,049            | 71,314            | 71,521           | 68,373           | 69,405            | 67,945            |
| 291,776           | 263,717           | 250,316          | 235,471          | 242,229           | 218,272           |
| 2,868,461         | 2,733,567         | 2,527,788        | 2,284,824        | 1,959,378         | 2,021,678         |
| 157,864           | 149,124           | 215,365          | 243,393          | 218,797           | 191,407           |
| 88,967            | 91,373            | —                | —                | —                 | —                 |
| 90,817            | 106,596           | 145,835          | 175,683          | 211,899           | 201,220           |
| 67,843            | 63,188            | 99,720           | 85,879           | 75,390            | 89,253            |
| 211,218           | 195,245           | 176,884          | 189,960          | 212,770           | 229,010           |
| <u>151,272</u>    | <u>132,025</u>    | <u>94,735</u>    | <u>99,522</u>    | <u>51,189</u>     | <u>74,916</u>     |
| <u>7,044,690</u>  | <u>6,919,926</u>  | <u>6,594,144</u> | <u>6,320,534</u> | <u>5,924,513</u>  | <u>5,874,908</u>  |
| 28,901            | 19,740            | 37,860           | 20,056           | 21,267            | 18,340            |
| 77,816            | 73,824            | 65,270           | 60,326           | 55,657            | 51,257            |
| 113,661           | 125,116           | 110,349          | 108,915          | 103,452           | 104,687           |
| 87,109            | 75,563            | 75,329           | 49,602           | 39,986            | 41,764            |
| 234,672           | 207,759           | 173,114          | 171,260          | 182,801           | 171,751           |
| 103,566           | 109,677           | 110,616          | 55,949           | 80,726            | 76,101            |
| 38,401            | 49,146            | 40,101           | 91,720           | 35,912            | 31,740            |
| 2,316,665         | 1,822,346         | 1,775,773        | 1,721,402        | 1,596,285         | 1,562,866         |
| 2,709,057         | 2,612,846         | 2,322,313        | 2,276,733        | 2,093,493         | 2,127,728         |
| 293,611           | 280,315           | 238,627          | 216,189          | 224,876           | 184,831           |
| 40,845            | 26,862            | 100,551          | 82,994           | 86,235            | 75,322            |
| 541,219           | 825,011           | 407,736          | 400,893          | 386,229           | 364,950           |
| 28,676            | 30,584            | —                | —                | —                 | —                 |
| 31,213            | 24,878            | 46,975           | 44,829           | 77,522            | 69,906            |
| 535,008           | 447,941           | 814,191          | 725,123          | 593,753           | 586,367           |
| —                 | 124,576           | 115,687          | 123,080          | 134,597           | 100,143           |
| 64,176            | —                 | —                | —                | —                 | —                 |
| <u>72,678</u>     | <u>—</u>          | <u>—</u>         | <u>—</u>         | <u>—</u>          | <u>—</u>          |
| <u>7,317,274</u>  | <u>6,856,184</u>  | <u>6,434,492</u> | <u>6,149,071</u> | <u>5,712,791</u>  | <u>5,567,753</u>  |
| (272,584)         | 63,742            | 159,652          | 171,463          | 211,722           | 307,155           |
| 32,370            | 110,000           | —                | —                | —                 | —                 |
| —                 | 4,172             | —                | —                | —                 | —                 |
| (1,039)           | —                 | —                | —                | —                 | —                 |
| 60,428            | 177,270           | —                | —                | —                 | —                 |
| —                 | —                 | 155,830          | 153,082          | 316,548           | 220,491           |
| —                 | —                 | —                | —                | 121,735           | —                 |
| (31,325)          | —                 | —                | —                | (113,379)         | (104,129)         |
| 517,171           | 472,711           | 359,243          | 293,713          | 489,066           | 228,616           |
| —                 | —                 | 1,000            | —                | —                 | —                 |
| (166,256)         | (660,834)         | (190,152)        | (178,731)        | (404,885)         | (178,747)         |
| —                 | —                 | —                | —                | —                 | 11,792            |
| —                 | —                 | (435,682)        | (370,020)        | (362,963)         | (347,904)         |
| —                 | —                 | —                | 413              | —                 | —                 |
| <u>411,349</u>    | <u>103,319</u>    | <u>(109,761)</u> | <u>(101,543)</u> | <u>46,122</u>     | <u>(169,881)</u>  |
| <u>\$ 138,765</u> | <u>\$ 167,061</u> | <u>\$ 49,891</u> | <u>\$ 69,920</u> | <u>\$ 257,844</u> | <u>\$ 137,274</u> |
| 2.01%             | 1.92%             | 2.06%            | 2.27%            | 2.63%             | 2.01%             |

government-wide schedules are effective beginning in fiscal year 2002.

**Schedule 5****Revenue Base****Last Ten Years****(Expressed in Thousands)**

|  | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|-------------|-------------|
| <b>Personal Income by Industry - (Calendar Year)</b> |             |             |             |             |
| Farm Earnings  | \$ (61,000) | \$ (24,000) | \$ (2,000)  | \$ (24,000) |
| Agricultural/Forestry, Fishing, and Other            | 123,000     | 116,000     | 112,000     | 117,000     |
| Mining   | 2,682,000   | 2,363,000   | 2,050,000   | 1,784,000   |
| Construction   | 2,393,000   | 2,079,000   | 1,868,000   | 1,676,000   |
| Manufacturing  | 3,951,000   | 3,932,000   | 3,917,000   | 3,776,000   |
| Transportation, Warehousing,<br>and Public Utilities | 1,813,000   | 1,722,000   | 1,672,000   | 1,588,000   |
| Wholesale Trade                                      | 1,453,000   | 1,327,000   | 1,223,000   | 1,122,000   |
| Retail Trade   | 2,611,000   | 2,493,000   | 2,417,000   | 2,307,000   |
| Finance, Insurance, and Real Estate                  | 1,492,000   | 1,409,000   | 1,355,000   | 1,323,000   |
| Service Industries                                   | 10,415,000  | 10,362,000  | 9,914,000   | 9,250,000   |
| Federal, Civilian                                    | 1,956,000   | 1,892,000   | 1,794,000   | 1,646,000   |
| Military   | 419,000     | 436,000     | 367,000     | 334,000     |
| State and Local Government                           | 5,368,000   | 5,182,000   | 4,987,000   | 4,788,000   |
| <b>Tax Revenue - (Fiscal Year)</b>                   |             |             |             |             |
| Consumer Sales                                       | 1,012,500   | 960,200     | 928,000     | 894,500     |
| Personal Income                                      | 1,297,700   | 1,170,100   | 1,068,200   | 1,055,500   |
| Severance  | 314,700     | 248,100     | 184,400     | 162,300     |
| Corporate Income and Business Franchise              | 347,700     | 280,800     | 181,500     | 181,200     |
| Motor Fuel   | 320,700     | 311,600     | 309,300     | 289,200     |
| Automobile Privilege                                 | 170,484     | 178,763     | 173,225     | 169,431     |

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not provided. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. The most current period available is 2006.

Sources: Survey of Current Business, State of West Virginia Executive Budget, and Department of Highways.

| <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> | <u>1997</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| \$ (8,000)  | \$ 28,000   | \$ 8,000    | \$ (11,000) | \$ (5,000)  | \$ (6,000)  |
| 147,000     | 142,000     | 114,000     | 107,000     | 88,000      | 79,000      |
| 1,626,000   | 1,619,000   | 1,368,000   | 1,440,000   | 1,453,000   | 1,501,000   |
| 1,752,000   | 1,819,000   | 1,438,000   | 1,351,000   | 1,344,000   | 1,332,000   |
| 3,720,000   | 3,786,000   | 3,525,000   | 3,360,000   | 3,394,000   | 3,297,000   |
| 1,578,000   | 1,611,000   | 1,798,000   | 1,781,000   | 1,726,000   | 1,674,000   |
| 1,118,000   | 1,098,000   | 1,145,000   | 1,123,000   | 1,083,000   | 1,058,000   |
| 2,268,000   | 2,206,000   | 2,325,000   | 2,219,000   | 2,154,000   | 2,066,000   |
| 1,340,000   | 1,258,000   | 1,076,000   | 1,040,000   | 932,000     | 886,000     |
| 8,988,000   | 8,509,000   | 6,417,000   | 6,054,000   | 5,671,000   | 5,346,000   |
| 1,561,000   | 1,483,000   | 1,366,000   | 1,273,000   | 1,204,000   | 1,166,000   |
| 158,000     | 180,000     | 168,000     | 155,000     | 145,000     | 143,000     |
| 4,660,000   | 4,450,000   | 3,902,000   | 3,706,000   | 3,493,000   | 3,383,000   |
| 885,900     | 852,500     | 845,800     | 829,000     | 794,300     | 775,200     |
| 1,034,700   | 1,020,700   | 965,700     | 919,900     | 866,100     | 786,200     |
| 166,500     | 163,200     | 148,700     | 148,400     | 175,200     | 176,900     |
| 220,200     | 214,300     | 217,800     | 263,100     | 221,500     | 251,300     |
| 230,100     | 224,400     | 224,300     | 227,100     | 220,300     | 201,800     |
| 180,472     | 155,623     | 153,927     | 143,356     | 134,354     | 126,157     |

**Schedule 6**  
**Revenue Rates**  
**Last Ten Calendar Years**

**Personal Income Tax**

**Single, Head of Household, Widow(er) with Dependent Child  
and Married Filing Jointly (Unchanged Over Last Ten Years)**

---

Less than \$10,000 ..... 3% of the taxable income

|            |                 |            |           |                         |
|------------|-----------------|------------|-----------|-------------------------|
| At least — | But less than — |            |           |                         |
| \$10,000   | \$25,000 .....  | \$ 300.00  | plus 4.0% | of excess over \$10,000 |
| \$25,000   | \$40,000 .....  | \$ 900.00  | plus 4.5% | of excess over \$25,000 |
| \$40,000   | \$60,000 .....  | \$1,575.00 | plus 6.0% | of excess over \$40,000 |
| \$60,000   | .....           | \$2,775.00 | plus 6.5% | of excess over \$60,000 |

**Business**

|  | <u><b>2007</b></u> | <u><b>2006</b></u> | <u><b>2005</b></u> | <u><b>2004</b></u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Corporate Net Income,<br>Applies to Corporations | 8.75%              | 9%                 | 9%                 | 9%                 |
| Severance Tax:                                   |                    |                    |                    |                    |
| Timber   | 1.22%              | 3.22%              | 3.22%              | 3.22%              |
| Oil/Gas  | 5%                 | 5%                 | 5%                 | 5%                 |
| Coal   | Various            | Various            | Various            | Various            |
| Consumer Sales Tax                               | 6%                 | 6%                 | 6%                 | 6%                 |
| Food Tax - Ended June 30, 2007                   | 5%                 | 5%                 | 6%                 | 6%                 |
| Started July 1, 2007                             | 4%                 | —                  | —                  | —                  |
| Motor Fuel Excise Tax*<br>(cents per gallon)     | 31.5               | 27.0               | 27.0               | 20.5               |
| Automobile Privilege Tax<br>(cents per dollar)   | 5                  | 5                  | 5                  | 5                  |

\*On January 1, 2004, the gasoline and special fuels excise tax was repealed, and the motor fuel excise tax was imposed on motor fuel. The motor fuel excise tax is the combination of a flat 20.5 cents per invoiced gallon rate and a variable sales and use tax rate of 11 cents per invoiced gallon as of January 1, 2007.

All rates are set by the Legislature.

Sources: State Tax Department and Department of Highways.

**Married Filing Separately (Unchanged Over Last Ten Years)**

Less than \$5,000 ..... 3% of the taxable income

|            |                 |            |           |                         |  |
|------------|-----------------|------------|-----------|-------------------------|--|
| At least — | But less than — |            |           |                         |  |
| \$ 5,000   | \$12,500 .....  | \$ 150.00  | plus 4.0% | of excess over \$ 5,000 |  |
| \$12,500   | \$20,000 .....  | \$ 450.00  | plus 4.5% | of excess over \$12,500 |  |
| \$20,000   | \$30,000 .....  | \$ 787.50  | plus 6.0% | of excess over \$20,000 |  |
| \$30,000   | .....           | \$1,387.50 | plus 6.5% | of excess over \$30,000 |  |

| <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 9%          | 9%          | 9%          | 9%          | 9%          | 9%          |
| 3.22%       | 3.22%       | 3.22%       | 3.22%       | 3.22%       | 3.22%       |
| 5%          | 5%          | 5%          | 5%          | 5%          | 5%          |
| Various     | Various     | Various     | Various     | Various     | Various     |
| 6%          | 6%          | 6%          | 6%          | 6%          | 6%          |
| 6%          | 6%          | 6%          | 6%          | 6%          | 6%          |
| —           | —           | —           | —           | —           | —           |
| 20.5        | 20.5        | 20.5        | 20.5        | 20.5        | 20.5        |
| 5           | 5           | 5           | 5           | 5           | 5           |

**Schedule 7****Revenue Payers by Industry/Category  
Most Current Available Year and  
Historical Comparison  
(Expressed in Thousands)****Sales Tax**

| <b>Tax Year 2004</b>                             |                   |                             |                 |                             |
|--|-------------------|-----------------------------|-----------------|-----------------------------|
| <b>Industry</b>                                  | <b>Remittance</b> | <b>Percent<br/>of Total</b> | <b>Accounts</b> | <b>Percent<br/>of Total</b> |
| Agriculture, Forestry,<br>Fishing and Hunting    | \$ 4,009          | 0.4%                        | 1,248           | 1.9%                        |
| Mining, Quarrying, and<br>Oil and Gas Extraction | 3,935             | 0.4%                        | 419             | 0.6%                        |
| Construction                                     | 18,710            | 1.9%                        | 11,716          | 17.7%                       |
| Manufacturing                                    | 33,646            | 3.4%                        | 3,298           | 5.0%                        |
| Wholesale Trade                                  | 77,761            | 7.9%                        | 2,550           | 3.9%                        |
| Retail Trade                                     | 565,304           | 57.3%                       | 16,977          | 25.7%                       |
| Finance and Insurance                            | 1,684             | 0.2%                        | 449             | 0.7%                        |
| Services   | 226,783           | 23.0%                       | 25,914          | 39.1%                       |
| Other  | <u>54,507</u>     | <u>5.5%</u>                 | <u>3,571</u>    | <u>5.4%</u>                 |
| Total  | <u>\$986,339</u>  | <u>100%</u>                 | <u>66,142</u>   | <u>100%</u>                 |

| <b>Tax Year 1999</b>                             |                   |                             |                 |                             |
|--|-------------------|-----------------------------|-----------------|-----------------------------|
| <b>Industry</b>                                  | <b>Remittance</b> | <b>Percent<br/>of Total</b> | <b>Accounts</b> | <b>Percent<br/>of Total</b> |
| Agriculture, Forestry,<br>Fishing and Hunting    | \$ 3,261          | 0.4%                        | 1,903           | 2.5%                        |
| Mining, Quarrying, and<br>Oil and Gas Extraction | 3,554             | 0.4%                        | 471             | 0.6%                        |
| Construction                                     | 12,726            | 1.5%                        | 12,686          | 16.4%                       |
| Manufacturing                                    | 29,059            | 3.4%                        | 4,854           | 6.3%                        |
| Wholesale Trade                                  | 67,056            | 7.9%                        | 3,363           | 4.3%                        |
| Retail Trade                                     | 563,299           | 66.3%                       | 24,126          | 31.2%                       |
| Finance and Insurance                            | 3,494             | 0.4%                        | 970             | 1.3%                        |
| Services   | 136,203           | 16.0%                       | 26,252          | 33.9%                       |
| Other  | <u>31,064</u>     | <u>3.7%</u>                 | <u>2,690</u>    | <u>3.5%</u>                 |
| Total  | <u>\$849,716</u>  | <u>100%</u>                 | <u>77,315</u>   | <u>100%</u>                 |

Note: Due to confidentiality issues, the names of revenue payers are not provided. This information is an alternative regarding the sources of the State's revenue.

Source: West Virginia State Tax Department.



**Personal Income Tax****Tax Year 2005**

| <u>Income Level</u> | <u>Tax Liability</u> | <u>Percent of Total</u> | <u>Returns</u> | <u>Percent of Total</u> |
|---------------------|----------------------|-------------------------|----------------|-------------------------|
| \$0 - \$10,000      | \$ 2,899             | 0.2%                    | 151,725        | 20.3%                   |
| \$10,000 - \$20,000 | 40,637               | 3.3%                    | 143,603        | 19.2%                   |
| \$20,000 - \$40,000 | 145,366              | 11.9%                   | 180,288        | 24.1%                   |
| \$40,000 - \$60,000 | 187,757              | 15.4%                   | 110,653        | 14.8%                   |
| Over \$60,000       | <u>844,333</u>       | <u>69.2%</u>            | <u>161,674</u> | <u>21.6%</u>            |
| Total               | <u>\$1,220,992</u>   | <u>100%</u>             | <u>747,943</u> | <u>100%</u>             |

**Tax Year 2000**

| <u>Income Level</u> | <u>Tax Liability</u> | <u>Percent of Total</u> | <u>Returns</u> | <u>Percent of Total</u> |
|---------------------|----------------------|-------------------------|----------------|-------------------------|
| \$0 - \$10,000      | \$ 3,116             | 0.3%                    | 168,231        | 22.8%                   |
| \$10,000 - \$20,000 | 45,238               | 4.7%                    | 156,483        | 21.2%                   |
| \$20,000 - \$40,000 | 150,837              | 15.6%                   | 185,928        | 25.2%                   |
| \$40,000 - \$60,000 | 183,406              | 19.0%                   | 107,842        | 14.6%                   |
| Over \$60,000       | <u>582,185</u>       | <u>60.4%</u>            | <u>119,891</u> | <u>16.2%</u>            |
| Total               | <u>\$964,782</u>     | <u>100%</u>             | <u>738,375</u> | <u>100%</u>             |

**Schedule 8**  
**Ratios of Outstanding Debt**  
**Last Ten Fiscal Years**  
**(Expressed in Thousands)**

**Governmental Activities - Primary Government - Debt**

| <u>Year</u> | <u>General<br/>Obligation<br/>Bonds</u> | <u>Revenue<br/>Bonds</u> | <u>Total<br/>Capital Leases<br/>and<br/>Notes Payable</u> | <u>Total</u> |
|-------------|---|--------------------------|---|--------------|
| 2007        | \$744,790                               | \$1,742,647              | \$343,813   | \$2,831,250  |
| 2006        | 772,912                                 | 726,249                  | 354,000   | 1,853,161    |
| 2005        | 798,490                                 | 763,761                  | 354,337   | 1,916,588    |
| 2004**      | 774,660                                 | 670,789                  | 300,227   | 1,745,676    |
| 2003        | 804,635                                 | 409,106                  | 300,899   | 1,514,640    |
| 2002        | 833,494                                 | 439,011                  | 252,107   | 1,524,612    |
| 2001        | 748,459                                 | 464,587                  | 61,865  | 1,274,911    |
| 2000        | 666,544                                 | 445,691                  | 64,252  | 1,176,487    |
| 1999        | 593,999                                 | 587,915                  | 25,987  | 1,207,901    |
| 1998        | 321,450                                 | 588,466                  | 29,190  | 939,106      |

Note: Details regarding the State's debt can be found in Note 10 to the basic financial statements. There is no business-type activities debt.

**Governmental Funds Tax Income**

| <u>Year</u> | <u>Personal<br/>Income</u> | <u>Consumer<br/>Sales</u> | <u>Business</u> | <u>Transportation</u> | <u>Other</u> | <u>Total</u> |
|-------------|----------------------------|---------------------------|-----------------|-----------------------|--------------|--------------|
| 2007        | \$1,372,646                | \$1,020,128               | \$906,022       | \$535,979             | \$393,400    | \$4,228,175  |
| 2006        | 1,330,913                  | 981,536                   | 920,940         | 501,022               | 382,718      | 4,117,129    |
| 2005        | 1,163,211                  | 979,357                   | 726,878         | 502,659               | 377,878      | 3,749,983    |
| 2004**      | 1,073,512                  | 965,378                   | 554,734         | 477,159               | 359,341      | 3,430,124    |
| 2003        | 1,048,172                  | 917,072                   | 551,910         | 466,273               | 291,776      | 3,275,203    |
| 2002        | 1,052,023                  | 925,317                   | 585,182         | 481,436               | 263,966      | 3,307,924    |
| 2001        | 1,023,536                  | 878,355                   | 580,608         | 454,949               | 250,316      | 3,187,764    |
| 2000        | 985,976                    | 878,690                   | 560,533         | 446,329               | 235,471      | 3,106,999    |
| 1999        | 917,765                    | 852,815                   | 616,262         | 438,522               | 242,229      | 3,067,593    |
| 1998        | 871,803                    | 817,406                   | 610,118         | 425,367               | 218,272      | 2,942,966    |

All General Obligation Bonds carry a pledge of the State to levy taxes if funds are insufficient to meet debt service.

Infrastructure bonds are paid from the dedication of the first \$24 million in severance tax collections.

Safe Roads Bonds are paid from a debt service fund which is administered by the West Virginia State Treasurer's Office. The Division of Highways makes a monthly transfer to this fund from the Road Fund. The monthly transfer amount is equal to 10% of the annual debt service requirement on all Safe Roads Bonds.

\*\*Restated

General Obligation Bond Debt Ratios

| <u>Year</u> | <u>General<br/>Obligation<br/>Bond<br/>Debt</u> | <u>Percent<br/>of<br/>Tax<br/>Income</u> | <u>Percent<br/>of<br/>Personal<br/>Income</u> | <u>Amount<br/>of Debt<br/>Per<br/>Capita*</u> |
|-------------|---|--|---|---|
| 2007        | \$744,790                                       | 17.61%                                   | 1.46%   | \$0.41  |
| 2006        | 772,912   | 18.77%                                   | 1.61%   | 0.43  |
| 2005        | 798,490   | 21.29%                                   | 1.75%   | 0.44  |
| 2004**      | 774,660   | 22.58%                                   | 1.77%   | 0.43  |
| 2003        | 804,635   | 24.57%                                   | 1.86%   | 0.45  |
| 2002        | 833,494   | 25.20%                                   | 1.99%   | 0.46  |
| 2001        | 748,459   | 23.48%                                   | 1.90%   | 0.41  |
| 2000        | 666,544   | 21.45%                                   | 1.78%   | 0.37  |
| 1999        | 593,999   | 19.36%                                   | 1.62%   | 0.33  |
| 1998        | 321,450   | 10.92%                                   | 0.91%   | 0.18  |

Total Debt Ratios

| <u>Year</u> | <u>Total<br/>Debt</u> | <u>Percent<br/>of<br/>Tax<br/>Income</u> | <u>Percent<br/>of<br/>Personal<br/>Income</u> | <u>Amount<br/>of Debt<br/>Per<br/>Capita*</u> |
|-------------|-----------------------|--|---|---|
| 2007        | \$2,831,250           | 66.96%                                   | 5.55%   | \$1.56  |
| 2006        | 1,853,161             | 45.01%                                   | 3.86%   | 1.02  |
| 2005        | 1,916,588             | 51.11%                                   | 4.19%   | 1.06  |
| 2004**      | 1,745,676             | 50.89%                                   | 3.98%   | 0.96  |
| 2003        | 1,514,640             | 46.25%                                   | 3.50%   | 0.84  |
| 2002        | 1,524,612             | 46.09%                                   | 3.64%   | 0.85  |
| 2001        | 1,274,911             | 39.99%                                   | 3.23%   | 0.71  |
| 2000        | 1,176,487             | 37.87%                                   | 3.14%   | 0.65  |
| 1999        | 1,207,901             | 39.38%                                   | 3.29%   | 0.67  |
| 1998        | 939,106               | 31.91%                                   | 2.67%   | 0.52  |

\*These ratios are calculated using the current fiscal year debt total divided by personal income and population for the prior calendar year. See Schedule 10 for personal income and population data.

\*\*Restated

**Schedule 9**  
**Pledged Revenue Coverage**  
**Last Ten Fiscal Years**  
**(Expressed in Thousands)**

**School Building Authority**

The Authority provides funds for modern efficient public school facilities throughout the State by promoting the consolidation of elementary and secondary public schools. The bonds are paid by certain net profits of the West Virginia Lottery. Only total debt service was available prior to 2002.

| <b>Fiscal Year</b> | <b>Operating Revenue</b> | <b>Direct Operating Expense</b> | <b>Net Revenue Available for Debt Service</b> | <b>Current Year Debt Service Requirements</b> |                 |              |                 |
|--------------------|--------------------------|---------------------------------|---|---|-----------------|--------------|-----------------|
|                    |                          |                                 |   | <b>Principal</b>                              | <b>Interest</b> | <b>Total</b> | <b>Coverage</b> |
| 2007               | \$43,359                 | \$2,367                         | \$40,992                                      | \$22,760                                      | \$18,383        | \$41,143     | 0.99            |
| 2006               | 42,754                   | 1,252                           | 41,502  | 20,030  | 19,349          | 39,379       | 1.05            |
| 2005               | 41,099                   | 1,124                           | 39,975  | 31,585  | 17,321          | 48,906       | 0.82            |
| 2004               | 42,501                   | 1,854                           | 40,647  | 24,490  | 15,498          | 39,988       | 1.02            |
| 2003               | 42,460                   | 2,071                           | 40,389  | 23,405  | 17,010          | 40,415       | 1.00            |
| 2002               | 43,449                   | 2,591                           | 40,858  | 19,465  | 18,523          | 37,988       | 1.08            |
| 2001               | 41,597                   | 2,768                           | 38,829  | —   | —               | 40,041       | 0.97            |
| 2000               | 42,983                   | 2,709                           | 40,274  | —   | —               | 40,127       | 1.00            |
| 1999               | 43,318                   | 2,645                           | 40,673  | —   | —               | 34,436       | 1.18            |
| 1998               | 38,373                   | 4,376                           | 33,997  | —   | —               | 33,007       | 1.03            |

**WV Infrastructure and Jobs Development Council**

The primary source of repayment for the revenue and refunding bonds is the receipt of payments of principal and interest on a set of loans, known as defined loans, previously made to projects from general obligation and revenue bond proceeds. New bonds were issued in 2006 and 2007 to refund earlier bond issues. There were no revenue bonds for this agency prior to 2000.

|      |          |          |          |          |          |          |      |
|------|----------|----------|----------|----------|----------|----------|------|
| 2007 | \$78,363 | \$17,121 | \$61,242 | \$14,600 | \$20,636 | \$35,236 | 1.74 |
| 2006 | 89,442   | 20,041   | 69,401   | 8,150    | 19,822   | 27,972   | 2.48 |
| 2005 | 24,150   | 18,759   | 5,391    | 840      | 4,517    | 5,357    | 1.01 |
| 2004 | 24,082   | 21,323   | 2,759    | 315      | 2,456    | 2,771    | 1.00 |
| 2003 | 24,143   | 21,609   | 2,534    | 135      | 2,466    | 2,601    | 0.97 |
| 2002 | 24,280   | 21,994   | 2,286    | —        | 2,470    | 2,470    | 0.93 |
| 2001 | 24,500   | 23,383   | 1,117    | —        | 1,063    | 1,063    | 1.05 |
| 2000 | 24,470   | 24,271   | 199      | —        | —        | —        | —    |

**Economic Development Project Fund**

West Virginia State Code Chapter 29, Article 22, Section 18a designates \$19 million annually from the “excess lottery revenue fund” to be paid into the economic development project fund created in subsection (d) for payment of revenue bonds issued pursuant to the same subsection. Interest on the account and any other amounts paid into the economic development project fund are also to be used for the repayment of the bonds, which were issued in 2004.

|      |          |      |          |          |          |          |      |
|------|----------|------|----------|----------|----------|----------|------|
| 2007 | \$19,888 | \$ — | \$19,888 | \$ 7,275 | \$11,629 | \$18,904 | 1.05 |
| 2006 | 22,627   | 100  | 22,527   | 7,165    | 11,767   | 18,932   | 1.19 |
| 2005 | 20,461   | —    | 20,461   | 13,890   | 11,009   | 24,899   | 0.82 |
| 2004 | 19,019   | —    | 19,019   | —        | —        | —        | —    |

### Education, Arts, Sciences, and Tourism

Certain net profits of the Lottery as set forth in Chapter 29 Article 22 of the Code of West Virginia are transferred to the Trustee under the bond indenture. These bonds are subordinate as to lien and source of payment only to those certain School Building Authority Capital Improvement Bonds, series 1994.

| <b>Fiscal Year</b> | <b>Operating Revenue</b> | <b>Direct Operating Expense</b> | <b>Net Revenue Available for Debt Service</b> | <b>Current Year Debt Service Requirements</b> |                 |              |                 |
|--------------------|--------------------------|---------------------------------|---|---|-----------------|--------------|-----------------|
|                    |                          |                                 |   | <b>Principal</b>                              | <b>Interest</b> | <b>Total</b> | <b>Coverage</b> |
| 2007               | \$11,002                 | \$ 3                            | \$10,999                                      | \$7,780                                       | \$2,002         | \$9,782      | 1.12            |
| 2006               | 10,860                   | —                               | 10,860  | 7,375   | 2,421           | 9,796        | 1.11            |
| 2005               | 10,404                   | —                               | 10,404  | 7,025   | 2,803           | 9,828        | 1.06            |
| 2004               | 10,196                   | —                               | 10,196  | 6,690   | 3,140           | 9,830        | 1.04            |
| 2003               | 10,271                   | —                               | 10,271  | 6,370   | 3,470           | 9,840        | 1.04            |
| 2002               | 10,291                   | —                               | 10,291  | 6,070   | 3,781           | 9,851        | 1.04            |
| 2001               | 11,841                   | 120                             | 11,721  | 5,750   | 4,091           | 9,841        | 1.19            |
| 2000               | 13,685                   | —                               | 13,685  | 5,450   | 4,402           | 9,852        | 1.39            |
| 1999               | 13,122                   | —                               | 13,122  | 5,190   | 4,739           | 9,929        | 1.32            |
| 1998               | 12,766                   | 3                               | 12,763  | 7,410   | 4,991           | 12,401       | 1.03            |

### Housing Development Fund

Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment. The Fund is authorized by West Virginia State Code to issue bonds and notes for its various programs in an aggregate principal amount not to exceed \$1.25 billion outstanding at any one time, exclusive of refunded obligations. Bonds and notes issued by the Fund are considered obligations of the Fund and are not deemed to constitute a debt or liability of the State. All bonds are secured by a pledge of all mortgage loan repayments, all proceeds of federal or private mortgage insurance, interest received on any monies or securities held pursuant to the resolution, and the rights and interest of the Fund in and to the mortgage loans. The Fund also has an Economic Development Program to generate and promote job creation in the State. The Fund may issue up to \$30,000,000 in bonds under this program, although only \$15 million has been issued. The bonds issued under this program are included in the total bonds issued and are secured by the projects funded from the program.

|      |           |          |           |          |          |          |      |
|------|-----------|----------|-----------|----------|----------|----------|------|
| 2007 | \$154,643 | \$ 8,123 | \$146,520 | \$20,180 | \$36,402 | \$56,582 | 2.59 |
| 2006 | 154,190   | 9,783    | 144,407   | 19,560   | 33,896   | 53,456   | 2.70 |
| 2005 | 185,696   | 7,448    | 178,248   | 20,050   | 34,595   | 54,645   | 3.26 |
| 2004 | 236,521   | 7,491    | 229,030   | 19,885   | 38,695   | 58,580   | 3.91 |
| 2003 | 205,965   | 10,391   | 195,574   | 19,550   | 47,320   | 66,870   | 2.92 |
| 2002 | 172,139   | 7,434    | 164,705   | 21,595   | 53,329   | 74,924   | 2.20 |
| 2001 | 138,058   | 6,743    | 131,315   | 19,185   | 48,359   | 67,544   | 1.94 |
| 2000 | 127,463   | 6,477    | 120,986   | 16,805   | 46,777   | 63,582   | 1.90 |
| 1999 | 147,976   | 6,307    | 141,669   | 14,790   | 51,214   | 66,004   | 2.15 |
| 1998 | 126,659   | 5,355    | 121,304   | 18,130   | 47,745   | 65,875   | 1.84 |

(Continued)

**Schedule 9**  
**Pledged Revenue Coverage**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)  
(Continued)**Water Development Authority**

The Authority maintains a variety of programs to provide long-term, short-term and private-activity financing at favorable interest rates for design, construction and/or acquisition of wastewater and/or water systems. Monies are loaned to municipalities, public service districts and other political subdivisions through purchase of revenue bonds or notes issued by these local governmental agencies. The loans are repaid from the revenues of the systems or other permanent financing. The aggregate principal amount of bonds and/or notes issued by the Authority may not exceed \$500 million outstanding at any time; provided that before the Authority issues bonds or notes in excess of \$440 million, the Legislature must pass a resolution authorizing this action. The Authority's long-term planning is accomplished within the confines of its authorized borrowing limit. Operating revenue includes revenues and principal loan repayments. Both are used for bond repayment. 2002 and 2004 include retirement of revenue bonds.

| <b>Fiscal<br/>Year</b> | <b>Operating<br/>Revenue</b> | <b>Direct<br/>Operating<br/>Expense</b> | <b>Net Revenue<br/>Available for<br/>Debt Service</b> | <b>Current Year Debt Service Requirements</b> |                 |              |                 |
|------------------------|------------------------------|---|---|---|-----------------|--------------|-----------------|
|                        |                              |   |   | <b>Principal</b>                              | <b>Interest</b> | <b>Total</b> | <b>Coverage</b> |
| 2007                   | \$15,829                     | \$502                                   | \$15,327  | \$ 6,585                                      | \$12,537        | \$ 19,122    | 0.80            |
| 2006                   | 16,334                       | 569                                     | 15,765  | 5,120   | 12,123          | 17,243       | 0.91            |
| 2005                   | 14,304                       | 650                                     | 13,654  | 4,065   | 11,025          | 15,090       | 0.90            |
| 2004                   | 15,540                       | 615                                     | 14,925  | 109,965                                       | 12,435          | 122,400      | 0.12            |
| 2003                   | 14,817                       | 688                                     | 14,129  | 3,645   | 12,525          | 16,170       | 0.87            |
| 2002                   | 19,225                       | 629                                     | 18,596  | 49,340  | 14,028          | 63,368       | 0.29            |
| 2001                   | 22,525                       | 513                                     | 22,012  | 3,645   | 15,293          | 18,938       | 1.16            |
| 2000                   | 21,154                       | 462                                     | 20,692  | 3,120   | 13,773          | 16,893       | 1.22            |
| 1999                   | 18,774                       | 494                                     | 18,280  | 4,285   | 12,063          | 16,348       | 1.12            |
| 1998                   | 17,548                       | 398                                     | 17,150  | 2,780   | 12,543          | 15,323       | 1.12            |

**Higher Education Fund**

Various individual institutions, as well as the Fund, have issued bonds which are generally payable from tuition and registration fees. The 2004 refunding bonds are to be repaid using certain Lottery funds. During fiscal years 2004 and 2005, Higher Education had a series of revenue bond refinancings that resulted in an increase in principal and interest payments. Prior to 2002, compiled debt information was not available.

|      |             |             |           |          |          |           |      |
|------|-------------|-------------|-----------|----------|----------|-----------|------|
| 2007 | \$1,333,158 | \$1,217,652 | \$115,506 | \$46,439 | \$32,636 | \$ 79,075 | 1.46 |
| 2006 | 1,254,971   | 1,147,583   | 107,388   | 20,527   | 33,149   | 53,676    | 2.00 |
| 2005 | 1,196,325   | 1,055,456   | 140,869   | 94,782   | 17,976   | 112,758   | 1.25 |
| 2004 | 1,113,067   | 988,177     | 124,890   | 97,911   | 18,813   | 116,724   | 1.07 |
| 2003 | 1,068,798   | 981,130     | 87,668    | 11,740   | 16,475   | 28,215    | 3.11 |
| 2002 | 1,000,040   | 913,409     | 86,631    | 10,957   | 11,677   | 22,634    | 3.83 |

### West Virginia Regional Jail and Correctional Facility Authority

Revenue Bonds are secured by the regional jails and correctional facilities and an irrevocable pledge of the lease payments, which are generated by court fees, and are required to be in sufficient amount to pay principal and interest on the bonds when due. The bonds were issued in 2002.

| <u>Fiscal Year</u> | <u>Operating Revenue</u> | <u>Direct Operating Expense</u> | <u>Net Revenue Available for Debt Service</u> | <u>Current Year Debt Service Requirements</u> |                 |              |                 |
|--------------------|--------------------------|---------------------------------|---|---|-----------------|--------------|-----------------|
|                    |                          |                                 |   | <u>Principal</u>                              | <u>Interest</u> | <u>Total</u> | <u>Coverage</u> |
| 2007               | \$84,597                 | \$69,267                        | \$15,330                                      | \$4,130                                       | \$4,735         | \$8,865      | 1.73            |
| 2006               | 85,389                   | 67,623                          | 17,766  | 3,940   | 4,926           | 8,866        | 2.00            |
| 2005               | 76,522                   | 57,650                          | 18,872  | 3,760   | 5,110           | 8,870        | 2.13            |
| 2004               | 63,390                   | 54,475                          | 8,915   | 3,585   | 5,284           | 8,869        | 1.01            |
| 2003               | 62,294                   | 60,220                          | 2,074   | 3,420   | 5,449           | 8,869        | 0.23            |
| 2002               | 63,188                   | 57,796                          | 5,392   | 3,110   | 5,606           | 8,716        | 0.62            |

### Parkways, Economic Development and Tourism Authority

Revenue Bonds are secured by a pledge of substantially all Parkways, Economic Development and Tourism Authority operating revenues and all monies deposited into accounts created by the Trust Indentures. Only total debt service is available.

| <u>Fiscal Year</u> | <u>Operating Revenue</u> | <u>Direct Operating Expense</u> | <u>Net Revenue Available for Debt Service</u> | <u>Total Debt Service</u> | <u>Coverage</u> |
|--------------------|--------------------------|---------------------------------|---|---------------------------|-----------------|
| 2007               | \$58,219                 | \$32,606                        | \$25,613                                      | \$10,876                  | 2.36            |
| 2006               | 61,806                   | 31,478                          | 30,328  | 10,801                    | 2.81            |
| 2005               | 58,152                   | 30,258                          | 27,894  | 10,505                    | 2.66            |
| 2004               | 57,826                   | 28,706                          | 29,120  | 12,439                    | 2.34            |
| 2003               | 54,850                   | 27,583                          | 27,267  | 12,693                    | 2.15            |
| 2002               | 54,821                   | 27,366                          | 27,455  | 11,240                    | 2.44            |
| 2001               | 54,116                   | 26,292                          | 27,824  | 11,176                    | 2.49            |
| 2000               | 54,410                   | 26,211                          | 28,199  | 11,249                    | 2.51            |
| 1999               | 53,437                   | 24,948                          | 28,489  | 11,115                    | 2.56            |
| 1998               | 52,898                   | 28,330                          | 24,568  | 11,125                    | 2.21            |

Note: Details regarding the State's debt can be found in Note 10 to the basic financial statements.

Source: School Building Authority; West Virginia Infrastructure and Jobs Development Council; Housing Development Fund; Water Development Authority; Higher Education Fund; West Virginia Regional Jail and Correctional Facility Authority; and Parkways, Economic Development and Tourism Authority and bond indentures.

This schedule has been revised.

**Schedule 10**  
**Demographics and Economic Indicators**

|  | <u>2006</u>  | <u>2005</u>  | <u>2004</u> | <u>2003</u> |
|--|--------------|--------------|-------------|-------------|
| <b>Population</b>  |              |              |             |             |
| West Virginia  | 1,818,470    | 1,814,083    | 1,812,548   | 1,810,347   |
| Change   | 0.24%        | 0.08%        | 0.12%       | 0.32%       |
| National   | 300,888,812  | 298,024,822  | 293,656,842 | 290,850,005 |
| Change   | 0.96%        | 1.49%        | 0.97%       | 0.99%       |
| <b>Total Personal Income (Dollars in Millions)</b>                                       |              |              |             |             |
| West Virginia  | \$51,039     | \$47,955     | \$45,731    | \$43,841    |
| Change   | 6.43%        | 4.86%        | 4.31%       | 1.22%       |
| National   | \$10,966,808 | \$10,284,378 | \$9,711,271 | \$9,150,320 |
| Change   | 6.64%        | 5.90%        | 6.13%       | 3.13%       |
| <b>Per Capita Personal Income* (In Dollars)</b>  |              |              |             |             |
| West Virginia  | \$28,067     | \$26,435     | \$25,230    | \$24,217    |
| Change   | 6.17%        | 4.77%        | 4.18%       | 0.90%       |
| National   | \$36,448     | \$34,508     | \$33,070    | \$31,461    |
| Change   | 5.62%        | 4.35%        | 5.12%       | 2.11%       |
| <b>Median Age</b>  | 40.7         | 40.7         | 40.2        | 39.9        |
| <b>Educational Attainment</b>  |              |              |             |             |
| 9th Grade or Less  | 7.1%         | 10.0%        | 10.0%       | 10.0%       |
| Some High School, No Diploma   | 11.9%        | 14.8%        | 14.8%       | 14.8%       |
| High School Diploma  | 42.7%        | 39.4%        | 39.4%       | 39.4%       |
| Some College, No Degree  | 16.1%        | 16.6%        | 16.6%       | 16.6%       |
| Associate, Bachelor's or Graduate Degree   | 22.2%        | 19.2%        | 19.2%       | 19.2%       |
| <b>Labor Force and Employment</b><br><b>(People in Thousands)</b>                        |              |              |             |             |
| Civilian Labor Force   | 807.0        | 794.0        | 791.0       | 794.0       |
| Employed   | 767.0        | 754.0        | 749.0       | 746.0       |
| Unemployed   | 40.0         | 40.0         | 42.0        | 48.0        |
| Unemployment Rate  | 4.9%         | 5.0%         | 5.3%        | 6.0%        |
| Nonfarm Wage and Salary Workers Employed<br>in West Virginia Goods Producing Industries: |              |              |             |             |
| Mining   | 28.1         | 25.9         | 23.8        | 22.0        |
| Construction   | 39.2         | 36.8         | 34.6        | 32.7        |
| Manufacturing-Durable Goods  | 38.4         | 38.8         | 39.2        | 39.7        |
| Manufacturing-Nondurable Goods   | <u>22.6</u>  | <u>23.0</u>  | <u>23.8</u> | <u>24.9</u> |
| Total Goods Producing Industries   | 128.3        | 124.5        | 121.4       | 119.3       |
| Non-Goods Producing Industries:  |              |              |             |             |
| Trade  | 115.5        | 113.6        | 111.9       | 110.4       |
| Service  | 367.8        | 364.9        | 360.5       | 355.5       |
| State and Local Government   | 122.4        | 121.7        | 121.4       | 120.6       |
| Federal Government   | <u>22.1</u>  | <u>21.9</u>  | <u>21.8</u> | <u>21.9</u> |
| Total Non-Goods Producing Industries   | 627.8        | 622.1        | 615.6       | 608.4       |
| Total Nonfarm Wage and Salary Employment   | 756.1        | 746.6        | 737.0       | 727.7       |

\*Per capita personal income is calculated by dividing total personal income by population.

Sources: Workforce West Virginia Research, Information, and Analysis Office, the Census, and the Survey of Current Business.

This schedule has been revised.



| <b><u>2002</u></b> | <b><u>2001</u></b> | <b><u>2000</u></b> | <b><u>1999</u></b> | <b><u>1998</u></b> | <b><u>1997</u></b> |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 1,804,529          | 1,801,438          | 1,807,442          | 1,811,799          | 1,815,609          | 1,819,113          |
| 0.17%              | (0.33)%            | (0.24)%            | (0.21)%            | (0.19)%            | (0.20)%            |
| 287,984,799        | 285,107,923        | 282,193,477        | 279,731,000        | 276,553,000        | 273,368,000        |
| 1.01%              | 1.03%              | 0.88%              | 1.15%              | 1.17%              | 1.20%              |
| <br>               |                    |                    |                    |                    |                    |
| \$43,312           | \$41,902           | \$39,438           | \$37,472           | \$36,738           | \$35,202           |
| 3.36%              | 6.25%              | 5.25%              | 2.00%              | 4.36%              | 4.24%              |
| \$8,872,871        | \$8,716,992        | \$8,398,871        | \$7,779,521        | \$7,418,497        | \$6,928,545        |
| 1.79%              | 3.79%              | 7.96%              | 4.87%              | 7.07%              | 5.97%              |
| <br>               |                    |                    |                    |                    |                    |
| \$24,002           | \$23,260           | \$21,820           | \$20,682           | \$20,235           | \$19,351           |
| 3.19%              | 6.60%              | 5.50%              | 2.21%              | 4.56%              | 4.45%              |
| \$30,810           | \$30,574           | \$29,763           | \$27,811           | \$26,825           | \$25,345           |
| 0.77%              | 2.73%              | 7.02%              | 3.68%              | 5.84%              | 4.71%              |
| <br>               |                    |                    |                    |                    |                    |
| 39.5               | 39.3               | 39.0               | 38.9               | 38.5               | 38.1               |
| <br>               |                    |                    |                    |                    |                    |
| 10.0%              | 10.0%              | 10.0%              | 16.8%              | 16.8%              | 16.8%              |
| 14.8%              | 14.8%              | 14.8%              | 17.3%              | 17.3%              | 17.3%              |
| 39.4%              | 39.4%              | 39.4%              | 36.6%              | 36.6%              | 36.6%              |
| 16.6%              | 16.6%              | 16.6%              | 13.2%              | 13.2%              | 13.2%              |
| 19.2%              | 19.2%              | 19.2%              | 16.1%              | 16.1%              | 16.1%              |
| <br>               |                    |                    |                    |                    |                    |
| 798.0              | 801.0              | 809.0              | 813.0              | 807.0              | 801.0              |
| 751.0              | 759.0              | 765.0              | 762.0              | 755.0              | 746.0              |
| 47.0               | 42.0               | 44.0               | 51.0               | 52.0               | 54.0               |
| 5.9%               | 5.2%               | 5.5%               | 6.3%               | 6.5%               | 6.8%               |
| <br>               |                    |                    |                    |                    |                    |
| 23.1               | 23.5               | 21.4               | 22.3               | 24.6               | 25.1               |
| 33.4               | 34.9               | 34.0               | 33.8               | 34.4               | 34.9               |
| 42.2               | 44.5               | 46.6               | 46.7               | 46.5               | 45.6               |
| <u>26.5</u>        | <u>27.7</u>        | <u>29.2</u>        | <u>30.2</u>        | <u>31.2</u>        | <u>31.3</u>        |
| 125.2              | 130.6              | 131.2              | 133.0              | 136.7              | 136.9              |
| <br>               |                    |                    |                    |                    |                    |
| 111.3              | 113.7              | 117.4              | 117.0              | 115.4              | 114.3              |
| 353.7              | 350.0              | 344.1              | 335.1              | 326.4              | 317.4              |
| 120.9              | 119.2              | 120.6              | 119.2              | 119.0              | 117.9              |
| <u>21.9</u>        | <u>21.8</u>        | <u>22.5</u>        | <u>21.7</u>        | <u>21.8</u>        | <u>21.1</u>        |
| 607.8              | 604.7              | 604.6              | 593.0              | 582.6              | 570.7              |
| <br>               |                    |                    |                    |                    |                    |
| 733.0              | 735.3              | 735.8              | 726.0              | 719.3              | 707.6              |

**Schedule 11**

**Principal Employers**

**Current Year and Nine Years Ago**

**As of June 30, 2007**

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| <b>Major<br/>West Virginia<br/><u>Employers</u></b> | <b>Number of<br/><u>Employees</u></b> |
|---|---------------------------------------|
| Local Government                                    | 75,000 - 79,999                       |
| State Government                                    | 30,000 - 34,999                       |
| Federal Government                                  | 20,000 - 24,999                       |
| Wal-Mart Associates, Inc.                           | 10,000 - 12,499                       |
| West Virginia University Hospitals                  | 6,000 - 7,999                         |
| Charleston Area Medical Center                      | 5,000 - 5,999                         |
| Kroger  | 3,000 - 4,499                         |
| CSX Hotels Inc. (The Greenbrier Hotel and railroad) | 3,000 - 4,499                         |
| Lowe's Home Centers, Inc.                           | 2,000 - 2,999                         |
| American Electric Power                             | 2,000 - 2,999                         |
| Eldercare Resources Corporation                     | 2,000 - 2,999                         |
| Consolidation Coal Company                          | 2,000 - 2,999                         |
| St. Mary's Hospital                                 | 2,000 - 2,299                         |

**As of June 30, 1998**

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| <b>Major<br/>West Virginia<br/><u>Employers</u></b>     | <b>Number of<br/><u>Employees</u></b> |
|---|---------------------------------------|
| Local Government  | 70,000 - 74,999                       |
| State Government  | 25,000 - 29,999                       |
| Federal Government                                      | 20,000 - 24,999                       |
| Wal-Mart Stores, Inc.                                   | 5,000 - 5,999                         |
| Weirton Steel Corporation                               | 4,000 - 4,999                         |
| Charleston Area Medical Center                          | 4,000 - 4,999                         |
| Kroger  | 4,000 - 4,999                         |
| E I DuPont De Nemours                                   | 3,000 - 3,999                         |
| Union Carbide Corporation                               | 2,000 - 2,999                         |
| Appalachian Power Company                               | 2,000 - 2,999                         |
| West Virginia University Hospitals                      | 2,000 - 2,999                         |
| Rite Aid of West Virginia, Inc.                         | 2,000 - 2,299                         |
| Century Aluminum of West Virginia (Ravenswood Aluminum) | 2,000 - 2,999                         |

**Schedule 12**  
**Education Enrollment**  
**Last Ten Fiscal Years**

**Public School Enrollment Grades Pre-K Through 12**

| <u>Year</u> | <u>Elementary<br/>(Pre-K to 6)</u> | <u>Secondary<br/>(7 to 12)</u> | <u>Total<br/>All Grades</u> |
|-------------|------------------------------------|--------------------------------|-----------------------------|
| 2006-07     | 154,479                            | 126,818                        | 281,297                     |
| 2005-06     | 152,969                            | 126,819                        | 279,788                     |
| 2004-05     | 152,470                            | 126,987                        | 279,457                     |
| 2003-04     | 153,616                            | 126,945                        | 280,561                     |
| 2002-03     | 155,144                            | 126,447                        | 281,591                     |
| 2001-02     | 155,635                            | 126,597                        | 282,232                     |
| 2000-01     | 156,975                            | 128,810                        | 285,785                     |
| 1999-00     | 157,972                            | 132,972                        | 290,944                     |
| 1998-99     | 159,806                            | 136,753                        | 296,559                     |
| 1997-98     | 161,231                            | 140,083                        | 301,314                     |

**Higher Education Enrollment**  
**Colleges and Universities**

| <u>Year</u> | <u>Public</u>     |   | <u>Independent</u> |   |
|-------------|-------------------|---|--------------------|---|
|             | <u>Enrollment</u> | <u>Number of<br/>Certificates<br/>and Degrees</u> | <u>Enrollment</u>  | <u>Number of<br/>Certificates<br/>and Degrees</u> |
| 2006-07     | 86,088            | 14,733  | 10,639             | 2,682   |
| 2005-06     | 84,713            | 14,206  | 10,811             | 2,575   |
| 2004-05     | 82,845            | 13,963  | 11,650             | 2,462   |
| 2003-04     | 80,837            | 13,141  | 11,625             | 2,357   |
| 2002-03     | 78,976            | 12,839  | 11,034             | 2,337   |
| 2001-02     | 78,315            | 12,302  | 10,066             | 2,021   |
| 2000-01     | 76,050            | 12,264  | 9,808              | 1,925   |
| 1999-00     | 76,751            | 12,108  | 9,837              | 1,923   |
| 1998-99     | 76,307            | 12,024  | 10,064             | 2,030   |
| 1997-98     | 75,920            | 11,975  | 10,271             | 1,992   |

Sources: West Virginia Board of Education and West Virginia Higher Education Policy.

**Schedule 13**  
**State Employees by Function**  
**Last Ten Fiscal Years**

|                                    | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   | <u>2004</u>   |
|------------------------------------|---------------|---------------|---------------|---------------|
| Executive*                         | 896           | 881           | 902           | 898           |
| Legislative                        | 208           | 204           | 203           | 201           |
| Judicial                           | 936           | 882           | 876           | 876           |
| Administration                     | 663           | 573           | 598           | 620           |
| Commerce                           |               |               |               |               |
| Natural Resources (Parks)          | 844           | 813           | 812           | 816           |
| Tourism and Development            | 166           | 182           | 218           | 212           |
| Other                              | 736           | 758           | 1,513         | 1,630         |
| Environmental Protection           | 820           | 843           | 862           | 851           |
| Education and the Arts             |               |               |               |               |
| Department of Education            | 519           | 511           | 531           | 516           |
| School for the Deaf and the Blind  | 192           | 204           | 193           | 200           |
| Rehabilitation Services            | 544           | 694           | 721           | 716           |
| Higher Education                   | 10,165        | 9,959         | 9,746         | 9,450         |
| Other                              | 261           | 272           | 267           | 265           |
| Revenue                            | 1,042         | 1,024         | 774           | 768           |
| Health and Human Resources         | 5,596         | 5,588         | 5,771         | 5,524         |
| Military Affairs and Public Safety |               |               |               |               |
| Corrections                        | 1,648         | 1,632         | 1,592         | 1,555         |
| Juvenile Services                  | 615           | 601           | 601           | 565           |
| State Police                       | 1,011         | 987           | 980           | 972           |
| Regional Jail Authority            | 938           | 869           | 876           | 858           |
| All Other                          | 584           | 520           | 491           | 482           |
| Transportation                     | 5,490         | 5,296         | 5,767         | 5,836         |
| Miscellaneous                      | <u>496</u>    | <u>503</u>    | <u>530</u>    | <u>529</u>    |
| Total                              | <u>34,370</u> | <u>33,796</u> | <u>34,824</u> | <u>34,340</u> |

\*This includes the offices of the Governor, Treasurer, Secretary of State, Auditor, Attorney General, and Agriculture.

N/A = Not Available

Notes:

Separately audited agencies under Administration are not included prior to 2001.

The Workers' Compensation Commission was included under Commerce - Other in 2001 to 2005. In 2006, the Workers' Compensation Commission was privatized and approximately 300 of the employees moved to the Insurance Commission under Tax and Revenue.

Juvenile Services within the Department of Health and Human Resources and Corrections was combined into a separate Juvenile Services Division under Military Affairs and Public Safety in fiscal year 1998. Juvenile Services added 134 employees between 2003 and 2004 to staff new facilities.

The 1998 - 2000 employees for Transportation are Department of Highways only.

Sources: Leave system data warehouse reports, Higher Education Policy Commission, and Housing Development Fund.

| <u>2003</u>   | <u>2002</u>   | <u>2001</u>   | <u>2000</u>   | <u>1999</u>   | <u>1998</u>   |
|---------------|---------------|---------------|---------------|---------------|---------------|
| 889           | 863           | 799           | 803           | 727           | 695           |
| 200           | 202           | 190           | 201           | 192           | 172           |
| 884           | 848           | 841           | 812           | 764           | 728           |
| 540           | 539           | 527           | 151           | 158           | 155           |
| 830           | 824           | 823           | 817           | 818           | 816           |
| 195           | 201           | 156           | 164           | 165           | 160           |
| 1,696         | 1,624         | 1,640         | 366           | 367           | 370           |
| 852           | 763           | 758           | 767           | 771           | 768           |
| 504           | 503           | 470           | 447           | 452           | 413           |
| 204           | 218           | 205           | 210           | 209           | 205           |
| 723           | 715           | 699           | 720           | 723           | 719           |
| 9,432         | 9,643         | 9,457         | 9,463         | 9,195         | 9,123         |
| 284           | 288           | 265           | 136           | 134           | 136           |
| 762           | 739           | 648           | 620           | 670           | 676           |
| 5,593         | 5,545         | 5,538         | 5,478         | 5,364         | 5,063         |
| 1,562         | 1,505         | 1,375         | 1,397         | 1,310         | 1,104         |
| 431           | 424           | 286           | 208           | 202           | —             |
| 949           | 934           | 975           | 1,005         | 1,002         | 938           |
| 760           | 740           | 604           | N/A           | N/A           | N/A           |
| 477           | 441           | 393           | 342           | 304           | 300           |
| 5,983         | 6,358         | 6,977         | 4,975         | 5,048         | 5,161         |
| <u>450</u>    | <u>396</u>    | <u>386</u>    | <u>380</u>    | <u>382</u>    | <u>365</u>    |
| <u>34,200</u> | <u>34,313</u> | <u>34,012</u> | <u>29,462</u> | <u>28,957</u> | <u>28,067</u> |

**Schedule 14**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

|  | <u>2007</u>    | <u>2006</u>    | <u>2005</u>    | <u>2004</u> |
|--|----------------|----------------|----------------|-------------|
| Transportation   |                |                |                |             |
| Total highway construction projects authorized                             | 874            | 1,105          | 1,232          | 1,165       |
| Number of roadway resurfacing projects                                     | 324            | 481            | 490            | 488         |
| Number of roadway miles resurfaced   | 944            | 1,239          | 1,208          | 1,070       |
| WORKFORCE West Virginia (Employment Programs)                              |                |                |                |             |
| Applications for job search services (in thousands)                        | <b>107</b>     | <b>102</b>     | 97             | 152         |
| Filled job openings  | <b>22,613</b>  | <b>21,536</b>  | 20,511         | 24,400      |
| Education  |                |                |                |             |
| Schools receiving exemplary accreditation status                           | <b>7%</b>      | 17%            | 4%             | 7%          |
| Schools receiving full accreditation status                                | <b>89%</b>     | 68%            | 76%            | 85%         |
| School districts receiving full approval status                            | <b>93%</b>     | 93%            | 96%            | 93%         |
| Health and Human Resources   |                |                |                |             |
| Number of food stamp recipients  | 235,772        | 261,577        | 255,281        | 249,227     |
| Number of food stamps issued   | 22,869,066     | 21,982,039     | 20,986,880     | 20,563,342  |
| Individuals eligible to receive medicaid services                          | 392,054        | 384,338        | <b>383,000</b> | 389,826     |
| Medicaid enrollees   | <b>325,977</b> | 325,977        | 321,158        | 316,668     |
| Counties enrolled in managed care*   | 89%            | 89%            | 85%            | 62%         |
| Child support collections (in millions)                                    | \$192          | \$188          | \$187          | \$177       |
| Students served by school-based health clinics                             | <b>26,800</b>  | <b>25,950</b>  | 25,780         | 24,155      |
| Natural Resources  |                |                |                |             |
| Attendance at State Parks (in millions)                                    | 6.3            | 6.7            | 7.3            | 6.4         |
| Attendance at Wildlife management areas (in millions)                      | 1.7            | 2.3            | 2.5            | 2.5         |
| Individuals whitewater rafting on rivers                                   | <b>210,000</b> | 201,734        | 209,542        | 227,752     |
| Harvest of regulated big game  | <b>226,000</b> | <b>226,000</b> | <b>225,000</b> | 192,231     |
| Environmental Protection   |                |                |                |             |
| Division of Air Quality  |                |                |                |             |
| Number of air quality inspections  | <b>55</b>      | <b>55</b>      | 51             | 68          |
| Response rate of air pollution-related complaints (goal is 90% or greater) | <b>90%</b>     | <b>90%</b>     | 97%            | 90%         |
| Division of Land Restoration Programs                                      |                |                |                |             |
| Organizations that adopted highways  | <b>1,350</b>   | <b>1,575</b>   | 1,456          | 1,518       |
| Division of Mining and Reclamation   |                |                |                |             |
| Surface mine blasting examinations and certifications                      | 140            | 139            | 144            | 94          |
| Surface mine mineral extraction inspections                                | <b>20,000</b>  | 21,891         | 20,085         | 20,193      |
| Number of acres reclaimed through reclamation and restoration of land      | 7,261          | 12,655         | 10,963         | 9,893       |
| Office of Miners Health and Safety   |                |                |                |             |
| Total safety inspections   | <b>6,200</b>   | <b>6,100</b>   | 5,737          | 5,984       |
| Violations issued by mine Inspectors                                       | <b>8,700</b>   | <b>8,500</b>   | 10,784         | 8,454       |
| Lost time injuries of mining personnel**                                   | <b>1,250</b>   | <b>1,225</b>   | 1,107          | 1,075       |
| Military Affairs and Public Safety   |                |                |                |             |
| Division of Corrections  |                |                |                |             |
| Adult inmate housing capacity  | <b>4,840</b>   | 4,520          | 4,070          | 4,070       |
| Inmate employment (Prison Industries)                                      | <b>270</b>     | 228            | 228            | 259         |
| Youth successfully completed programs/returned to community                | <b>200</b>     | 160            | 180            | 196         |
| Veterans' Home   |                |                |                |             |
| Average daily number of residents  | <b>100</b>     | 96             | 95             | 79          |
| Average daily cost per resident  | <b>\$67.00</b> | \$64.00        | \$61.54        | \$60.28     |
| Senior Services  |                |                |                |             |
| Persons served under medicaid aged and disabled waiver                     | <b>4,500</b>   | 4,571          | 4,901          | 5,760       |

Items in bold are estimated figures; N/A = Not Available.

\*There are 55 counties in West Virginia.

\*\*Occasions when mining personnel were unable to work their next shift due to injuries.

Source: Agencies and Executive Budget document.

This schedule has been revised.

| <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 1,064       | 1,499       | 1,396       | 1,746       | 1,825       | 1,720       |
| 384         | 534         | 580         | 616         | 615         | 725         |
| 1,040       | 1,071       | 1,545       | 2,325       | 1,629       | 1,730       |
| 163         | 152         | 154         | 152         | 148         | 167         |
| 27,072      | 27,072      | 26,450      | 25,500      | 25,169      | 23,125      |
| 10%         | 7%          | N/A         | N/A         | N/A         | N/A         |
| 77%         | 74%         | 77%         | 75%         | 86%         | 91%         |
| 82%         | 82%         | 71%         | 73%         | 96%         | 55%         |
| 235,420     | 223,047     | N/A         | N/A         | N/A         | N/A         |
| 19,266,926  | 17,892,030  | N/A         | N/A         | N/A         | N/A         |
| 370,432     | 356,374     | 351,862     | 344,627     | 369,789     | 357,971     |
| 306,185     | 294,661     | 344,296     | 337,433     | 341,693     | 330,488     |
| 42%         | 42%         | 42%         | 42%         | 27%         | 16%         |
| \$179       | \$167       | \$160       | \$145       | \$139       | \$136       |
| 23,826      | 23,627      | 23,350      | 23,348      | 24,217      | 21,014      |
| 7.6         | 7.2         | 8.0         | 7.9         | 8.25        | 8.01        |
| 2.6         | 2.6         | 2.75        | 2.76        | 2.91        | 2.44        |
| 218,444     | 228,169     | 246,846     | 231,559     | 228,035     | 251,921     |
| 224,339     | 272,949     | 240,092     | 208,679     | 246,513     | 211,151     |
| 41          | 50          | 57          | 57          | 55          | 15          |
| 89%         | 98%         | 97%         | 90%         | 88%         | 90%         |
| 1,481       | 1,966       | 1,513       | 1,476       | 1,426       | 1,568       |
| 151         | 54          | 24          | 40          | 52          | 57          |
| 18,885      | 18,887      | 20,412      | 25,178      | 21,000      | 20,971      |
| 9,470       | 9,292       | 8,654       | 7,679       | N/A         | N/A         |
| 5,787       | 4,764       | 4,098       | 4,261       | 5,033       | 5,431       |
| 6,539       | 7,956       | 9,565       | 9,527       | 9,817       | 9,823       |
| 1,138       | 1,238       | 1,006       | 1,030       | 1,184       | 1,165       |
| 3,880       | 3,696       | 3,390       | 3,246       | 3,076       | 2,512       |
| 244         | 270         | 233         | 300         | 260         | 260         |
| 148         | 159         | 160         | 185         | N/A         | N/A         |
| 112         | 125         | 115         | 103         | 82          | 66          |
| \$57.36     | \$48.20     | \$47.12     | \$48.91     | \$58.50     | \$68.78     |
| 5,760       | 5,315       | 4,175       | 4,121       | 3,742       | 3,650       |

**Schedule 15**  
**Capital Assets Statistics by Function**  
**Last Ten Fiscal Years**  
**(Expressed in Thousands)**

|   | <u>2007</u>  | <u>2006</u>  | <u>2005</u>  | <u>2004</u>  |
|---|--------------|--------------|--------------|--------------|
| Vehicles                                  |              |              |              |              |
| Executive                                 | 160          | 129          | 113          | 108          |
| Judicial                                  | 10           | 5            | 6            | 4            |
| Administration                            |              |              |              |              |
| Agency-Owned                              | 4            | 5            | 6            | 6            |
| Leased to other agencies                  | <u>1,857</u> | <u>1,623</u> | <u>1,588</u> | <u>1,455</u> |
| Total Administration                      | 1,861        | 1,628        | 1,594        | 1,461        |
| Revenue                                   | 3            | 3            | 3            | 3            |
| Commerce                                  |              |              |              |              |
| Division of Natural Resources             | 598          | 598          | 589          | 543          |
| Division of Forestry                      | 134          | 136          | 137          | 137          |
| Others                                    | <u>5</u>     | <u>6</u>     | <u>6</u>     | <u>5</u>     |
| Total Commerce                            | 737          | 740          | 732          | 685          |
| Environmental Protection                  | 14           | 13           | 13           | 11           |
| Education                                 | 37           | 36           | 40           | 40           |
| Health and Human Services                 | 69           | 69           | 66           | 59           |
| Military Affairs and Public Safety (MAPS) |              |              |              |              |
| West Virginia State Police                | 840          | 825          | 966          | 973          |
| Division of Corrections                   | 26           | 25           | 21           | 21           |
| Veterans Affairs                          | 49           | 51           | 32           | 32           |
| Regional Jail                             | 33           | 33           | 33           | 33           |
| Others                                    | <u>29</u>    | <u>26</u>    | <u>23</u>    | <u>23</u>    |
| Total MAPS                                | 977          | 960          | 1,075        | 1,082        |
| Regulatory Boards and Commissions         | 2            | 2            | 2            | —            |
| Boats                                     |              |              |              |              |
| Commerce                                  | 93           | 92           | 93           | 89           |
| Environmental Protection                  | 5            | 4            | 4            | 3            |
| Buildings                                 |              |              |              |              |
| Executive                                 | 28           | 28           | 28           | 28           |
| Administration                            | 65           | 60           | 52           | 50           |
| Revenue                                   | 2            | 2            | 2            | 2            |
| Commerce                                  |              |              |              |              |
| Division of Natural Resources             | 571          | 579          | 575          | 575          |
| Division of Forestry                      | 4            | 4            | 4            | 4            |
| Others                                    | <u>7</u>     | <u>6</u>     | <u>6</u>     | <u>6</u>     |
| Total Commerce                            | 582          | 589          | 585          | 585          |
| Environmental Protection                  | 7            | 7            | 7            | 4            |
| Education                                 | 43           | 43           | 43           | 43           |
| Health and Human Services                 | 157          | 147          | 147          | 145          |
| Military Affairs and Public Safety        |              |              |              |              |
| West Virginia State Police                | 82           | 81           | 81           | 80           |
| Division of Corrections                   | 53           | 53           | 50           | 47           |
| Armory Board                              | 167          | 171          | 171          | 168          |
| Others                                    | <u>46</u>    | <u>38</u>    | <u>38</u>    | <u>36</u>    |
| Total MAPS                                | 348          | 343          | 340          | 331          |
| Regulatory Boards and Commissions         | 1            | 1            | 1            | 1            |

Sources: Financial Accounting and Reporting Section; West Virginia Financial Information Management System; Fixed Asset detailed ledger.

This schedule has been revised.



| <u>2003</u>  | <u>2002</u>  | <u>2001</u>  | <u>2000</u>  | <u>1999</u>  | <u>1998</u>  |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 113          | 102          | 96           | 94           | 88           | 78           |
| 4            | 4            | 3            | 3            | 2            | 2            |
| 6            | 6            | 6            | 6            | 7            | 11           |
| <u>1,570</u> | <u>1,678</u> | <u>1,580</u> | <u>1,493</u> | <u>1,339</u> | <u>1,238</u> |
| 1,576        | 1,684        | 1,586        | 1,499        | 1,346        | 1,249        |
| 3            | 1            | 2            | 2            | 2            | 1            |
| 557          | 582          | 583          | 573          | 566          | 564          |
| 137          | 129          | 119          | 101          | 94           | 80           |
| <u>14</u>    | <u>17</u>    | <u>23</u>    | <u>26</u>    | <u>30</u>    | <u>30</u>    |
| 708          | 728          | 725          | 700          | 690          | 674          |
| 10           | 18           | 25           | 26           | 30           | 34           |
| 40           | 44           | 44           | 49           | 47           | 49           |
| 60           | 63           | 63           | 63           | 66           | 66           |
| 951          | 997          | 1,006        | 993          | 1,019        | 960          |
| 23           | 22           | 22           | 20           | 20           | 17           |
| 21           | 15           | 7            | —            | —            | —            |
| 37           | 47           | 47           | 47           | 43           | 41           |
| <u>17</u>    | <u>15</u>    | <u>12</u>    | <u>10</u>    | <u>9</u>     | <u>7</u>     |
| 1,049        | 1,096        | 1,094        | 1,070        | 1,091        | 1,025        |
| —            | —            | —            | —            | —            | —            |
| 89           | 90           | 85           | 82           | 80           | 77           |
| 3            | 3            | 3            | 3            | 3            | 3            |
| 28           | 28           | 28           | 28           | 28           | 28           |
| 46           | 44           | 44           | 43           | 38           | 39           |
| 2            | 1            | 1            | 1            | 1            | 1            |
| 569          | 568          | 564          | 563          | 559          | 544          |
| 4            | 4            | 4            | 3            | —            | —            |
| <u>6</u>     | <u>5</u>     | <u>3</u>     | <u>3</u>     | <u>3</u>     | <u>3</u>     |
| 579          | 577          | 571          | 569          | 562          | 547          |
| 4            | 4            | 4            | 4            | 4            | 4            |
| 43           | 43           | 43           | 43           | 44           | 43           |
| 144          | 144          | 144          | 144          | 144          | 143          |
| 78           | 76           | 72           | 68           | 68           | 67           |
| 46           | 45           | 45           | 45           | 43           | 42           |
| 167          | 167          | 167          | 166          | 166          | 166          |
| <u>33</u>    | <u>33</u>    | <u>25</u>    | <u>22</u>    | <u>18</u>    | <u>17</u>    |
| 324          | 321          | 309          | 301          | 295          | 292          |
| 1            | 1            | 1            | 1            | 1            | 1            |

**Schedule 16**  
**Miscellaneous Statistics**  
**June 30, 2007**

|  |  |
|--|--|
| Date of Statehood  | June 20, 1863                            |
| West Virginia shares its history with Virginia from 1609 until Virginia seceded from the Union in 1861. The delegates of 40 western counties formed their own government, which was granted statehood in 1863. Declared a state by President Abraham Lincoln, West Virginia is the only state to be designated by Presidential Proclamation. |  |
| Form of Government   | Constitutional Representative Government |
| Branches of Government   | Legislative - Executive - Judicial       |
| Area (Land and Water)  | 24,282 square miles                      |
| Highest Elevation Point  | Spruce Knob - 4,861 feet above sea level |
| Lowest Elevation Point   | Harpers Ferry - 247 feet above sea level |
| Miles of Public Roads and Streets  | 38,950                                   |
| Miles Maintained by the State  | 35,916                                   |
| State Police Protection:   |  |
| Number of State Police Detachments   | 60                                       |
| Number of State Police Troopers  | 648                                      |
| Higher Education (State Supported):  |  |
| Number of Campuses   | 22                                       |
| Number of Students   | 87,066                                   |
| Recreation:  |  |
| Number of State Parks  | 36                                       |
| Area of State Parks  | 76,949 acres                             |
| Number of State Forests  | 9  |
| Area of State Forests  | 79,041 acres                             |
| Number of Rail Trails  | 2  |
| Distance of Rail Trails  | 150 miles                                |
| Wildlife Fish and Game Management Areas  | 95                                       |
| Acreage of Wildlife Management Areas<br>(Owned and Leased)   | 355,294 acres                            |

Sources: Division of Highways, Division of Public Safety, Higher Education Policy Commission and Division of Natural Resources.